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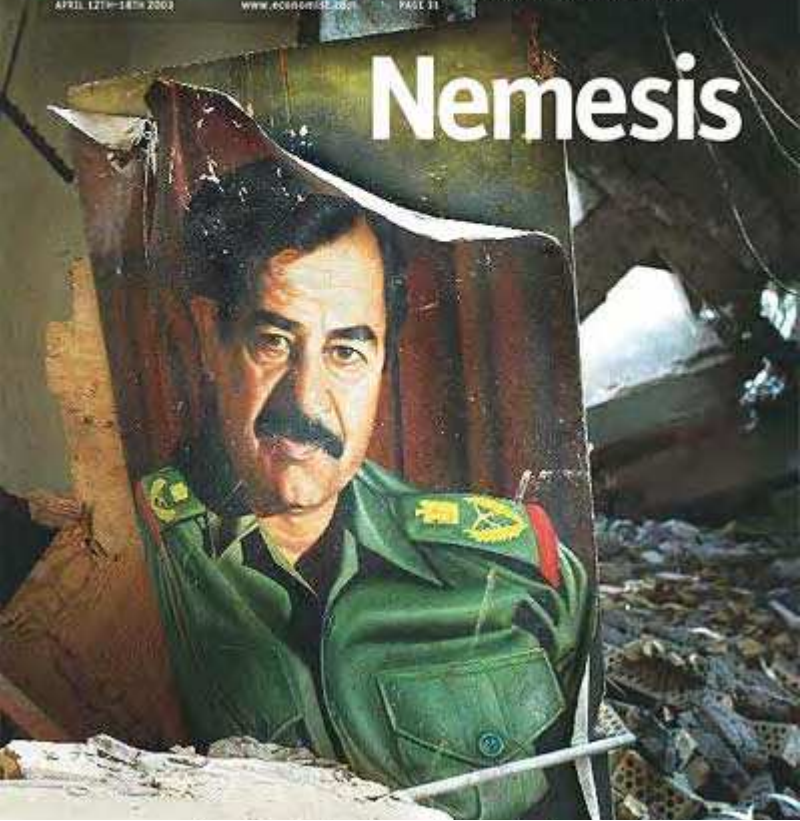
Nemesis



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Politics this week

Apr 10th 2003
From The Economist print edition

Saddam's tipping point

EPA

Jubilant Iraqis thronged the war-torn streets of Baghdad to celebrate the **demise of the regime** of Saddam Hussein. American troops surrounding the Iraqi capital swiftly followed tentative pushes into the city with a large-scale assault that met with sporadic resistance from Iraqi forces. British troops also moved into Basra, Iraq's second city. Iraqis greeted the crumbling of Saddam's rule with widespread looting.

See article: War in Iraq

Saddam's whereabouts remained a mystery. An American bomber destroyed a restaurant in a middle-class suburb of Baghdad after intelligence reports suggested that Iraq's leader and other senior figures were meeting there. Later reports suggested that he might have escaped with moments to spare. On Thursday he was rumoured to be surrounded in a Baghdad mosque.

See article: Saddam's regime topples

British forces claimed to have killed **"Chemical Ali"** Hassan al-Majid, a senior member of the regime responsible for the defence of southern Iraq. In the 1980s he led the "Anfal" campaign against the Kurds of Iraq, razing hundreds of villages and killing at least 100,000.

America suffered **light casualties in the assault on Baghdad** but the toll of dead and injured among Iraqi civilians and fighters was said to number in the thousands. Baghdad's hospitals struggled to treat the injured. Three journalists were killed and others injured after coming under fire from American tanks.

See article: The Americans enter Baghdad

American special forces and Kurdish fighters closed in on Iraqi forces in the north, and entered the city of **Kirkuk**.

Tony Blair and George Bush, meeting in Northern Ireland to discuss **post-war Iraq**, pledged a "vital" role for the United Nations in transforming the country into a democracy. The leaders of Russia, France and Germany, the main opponents of the war, were due to meet in St Petersburg to discuss Jacques Chirac's view that the UN alone should take charge in Iraq.

See article: Who will run the new Iraq?

A tape supposedly recorded by Osama bin Laden was released in which the leader of **al-Qaeda** urged Muslims to attack governments supporting the war in Iraq.

Checking the deadly spread

Reuters

Malaysia banned tourists from mainland **China**, in an effort to stop the spread of SARS, a pneumonia-type disease. The Philippines said it would discourage travel to Hong Kong. The virus has killed more than 100 people. Although the number is relatively small, doctors are worried because the virus is new and has a death rate of nearly 4%.

See article: Getting better, or worse?

Eleven Afghan civilians were killed when an American bomb went astray and landed on a house in the outskirts of Shkin, in eastern **Afghanistan**. The bomb was intended for rebel forces who were attacking an Afghan government checkpoint.

See article: Menace of the Taliban

The United States said it planned to move its garrison in central Seoul to a less conspicuous site outside the capital. Fifty years after the end of the Korean war, some **South Koreans** object to the presence of 37,000 American troops in their country.

See article: Meanwhile, in Pyongyang...

Scientists in America cloned a banteng, a wild cow becoming rare in **Java** and elsewhere in South-East Asia. They aim to show that cloning can help to save an endangered species.

Burning issue

America's Supreme Court upheld a Virginia law which bans the **burning of crosses**. Because of cross-burning's history as a “particularly virulent form of intimidation” against blacks, the ban does not violate the First Amendment's protection of free speech, the court ruled.

The number of Americans in **prison** exceeded 2m last year, according to a new Justice Department report. This means that one person in every 142 is in the slammer at any one time. America's jail population—the world's largest—has nearly doubled since 1990.

Carnage in Congo

Congo adopted a new constitution, after peace talks in South Africa. But the UN reported a new massacre, of nearly 1,000 people, in the gold-rich Ituri district. And a new estimate put the death toll from the country's five-year civil war at between 3m and 4.7m.

Foreign direct investment yielded **higher returns** in sub-Saharan Africa last year than in any other region, the World Bank said. This was perhaps because “given perceived higher risks in the region, investors chose only high-return projects.”

European expansionism

Having threatened not to vote through the treaties that will let ten new members join the **European Union** in 2004, the EU's parliament knuckled under, just in time for the signing ceremony planned for Athens on April 16th. Separately, the Greek prime minister, Costas Simitis, warned Turkey it would “never” be admitted if Cyprus remained divided.

See article: Turkey's muddled new government

George Bush, Tony Blair and Bertie Ahern, Ireland's prime minister, met in Belfast hoping (Iraq apart) that American clout would add weight to a Blair-Ahern plan, due out later in the week, for the next move in the stalled **Northern Irish** peace process.

See article: The Blair-Bush summit

The leaders of **Germany's** most powerful trade union, IG Metall, backed a left-winger to replace its incumbent chairman, Klaus Zwickel, in the autumn: bad news for the chancellor, Gerhard Schröder, who craves union backing for his proposed economic reforms.

At least 28 children died in a fire at a school for the deaf in Makhachkala, capital of the southern Russian

republic of Dagestan. The incident followed a fire in a school in Yakutia, in eastern Siberia, in which 22 children died.

A London auction house, Sotheby's, said it was to auction a manuscript of **Beethoven's** ninth symphony. Its final movement includes the EU's “national anthem”.

Cuba cracks down

AP

In **Cuba**, summary courts gave prison sentences of up to 28 years to more than 70 dissidents rounded up last month, in the harshest crackdown by Fidel Castro's regime in years.

See article: Repression in Cuba

In **Honduras**, a riot at a prison farm left 69 people dead, including three visitors, and 31 injured.

An American pilot died when his plane crashed in **Colombia** while spraying drug crops with weedkiller. He is the fourth American working for his government to die in plane crashes there this year. A fifth was killed by FARC guerrillas.

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Business this week

Apr 10th 2003
From The Economist print edition

Iraq's oil

Stockmarkets around the world made gains, as it seemed that the war in Iraq was coming to a swift conclusion. Oil prices fell; **OPEC's** success in keeping world markets supplied with oil during the war could lead to a glut and a dramatic drop in prices, fretted the organisation's president. He called for an emergency meeting to discuss cutting production quotas.

See article: What to do with Iraq's oil

Lukoil threatened legal action if its oil contracts in Iraq are not honoured by a post-war administration. The Russian oil giant signed a deal with Saddam Hussein giving it control of a large field in the south of Iraq, though it was rescinded last year after the Iraqis learned that Lukoil was talking to America about a post-Saddam deal.

Wim stays on

Wim Duisenberg agreed to an indefinite extension of his tenure as president of the **European Central Bank** past his planned retirement in July, until a (French) successor is found. Jean-Claude Trichet, the leading candidate, is awaiting verdict in a trial relating to a 1980s financial scandal. If he is found guilty, the French have a couple of other candidates up their sleeves.

Big shareholders in **Mediobanca** set aside their differences to ditch the investment bank's chief executive of three years, Vincenzo Maranghi.

The **London Stock Exchange** took on a chairman from outside the financial world. Chris Gibson-Smith, a former executive at BP, will succeed Don Cruickshank on May 1st.

Falling arches

Jim Cantalupo, chief executive of **McDonald's**, admitted that “We took our eyes off our fries”. The burger chain unveiled plans to counter a decline which saw it report its first quarterly loss in January. It will cut spending by $800m by opening fewer restaurants, increase dividends and make its products even tastier. The shares surged by 9%.

See article: The fast-food giant tries to revive growth

Rupert Murdoch's **News Corp** seems at last to have won its long battle to take on **DirecTV**, an American satellite-TV firm belonging to General Motors. News Corp had previously lost to a bigger bid by EchoStar, but that deal was overturned by regulators. Although the $6.6 billion News Corp will pay is less than it had offered earlier, the company's shares fell on the news.

See article: Rupert Murdoch's latest victory

An American judge blocked the state of Illinois from claiming $3 billion in punitive damages from **Altria**, the parent company of Philip Morris. The court ruled that the state gave up its rights to the cash, part of a $10 billion settlement of a class-action suit, as it had previously joined 45 other states in a settlement with tobacco companies in 1998.

Sonic bust

British Airways announced that it would cease flying Concorde across the Atlantic from the end of October. The airline blamed the downturn for falling demand among rich businessmen for expensive and uncomfortable supersonic flights. Separately, BA won tentative approval from America's Transport Department for a code-sharing link with troubled American Airlines.

Qantas succumbed to the travails affecting many of the world's airlines: economic uncertainty, war in Iraq and the SARS epidemic. The Australian carrier said it would cut 1,000 jobs, some 3% of the workforce. Cathay Pacific gave warning that plans to cut 23% of its flights may not be enough to cope with falling demand. Other airlines in the region announced cutbacks.

The **Carlyle Group**, an American private-equity company, agreed to buy Fiat Avio for *euro*1.6 billion ($1.7 billion). Finmeccanica, a state-controlled Italian defence contractor, is expected to become a 30% partner. The Italian industrial giant's sale of its aerospace business comes on top of other divestments aimed at raising cash after heavy losses at its car arm.

Brendan O'Neill resigned as chief executive of **Imperial Chemical Industries** two weeks after the British chemical and paint firm issued a profit warning that sent its shares tumbling by 40%.

Growing slowly

Italy is set to break the terms of Europe's growth and stability pact as its deficit rises above 3% of GDP in 2004, according to a European Commission forecast. The commission also suggested that EU growth would tumble to around 1% this year. The sluggish economy as much as Italian frivolity will force it into the company of Germany, France and Portugal—Europe's other budget bad boys.

The **IMF** forecast only a subdued economic recovery in its latest *World Economic Outlook*. It cut projections for world growth in 2003 from 3.7% to 3.2% and predicted that America's economy would grow by 2.2%, slower than previous forecasts.

See article: Economies after the war

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War in Iraq

Nemesis

Apr 10th 2003
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Now it is America's moment in the Middle East

Getty

Get article background

THE fighting is not yet completely over. Nor have Saddam Hussein's weapons of mass destruction yet been discovered. But by the end of the third week, once the residents of the Shia neighbourhoods of Baghdad thought it safe to take to the streets and dance for sheer joy, it became clear that the regime, if not necessarily the dictator, was as good as dead. Like all wars, this one has had its full share of horror. But it has at least been remarkably swift. Better still, it is indeed being greeted by many Iraqis—certainly most of the Kurds, probably most of the Shias, and possibly much of the Sunni minority as well—as a genuine liberation, rather than the "liberation" the critics of this war have for so long insisted on putting inside sneering quotation marks.

Something good has happened...

The critics will doubtless find new reasons to cavil soon enough. The war was swift, but how could Iraq versus the superpower have ended any other way? What about the looting, the disorder, the score-settling, the perils ahead? How, exactly, does the Anglo-American coalition plan to plant a liberal democracy in such barren soil? Was the war legal? Was it worth the damage it has inflicted on the Security Council, on Arab pride, on relations between America and Europe and between Islam and the West? Is there not a danger that, having rediscovered the swiftness of its terrible sword, America will turn too readily to the use of force in other conflicts? And so forth. In truth, many of these are excellent questions. But first the critics of this war have a duty to acknowledge that something good has happened, and that this good has to be weighed in the scale against their misgivings. Quite simply, the people of Iraq are being delivered from a terror that has endured for more than a quarter of a century. The torture chambers are being emptied. Yes, thousands of Iraqis have died in this invasion; but well over 100,000 had been murdered over the decades by the regime itself, and perhaps half a million died in the dictator's pointless wars. Now, at least, Iraq can hope for a better future.

Will that hope be translated into reality? It is hard to imagine any post-war dispensation that could leave Iraqis less free or more miserable than they were under Mr Hussein. In the long run, its oil should enrich

Iraq. But Mr Bush has chosen a horribly complicated country in which to learn the business of nation-building he was once so anxious to avoid. The scale of the atrocities practised by the regime makes it inevitable that there will be a period of bloody revenge-taking. Sectarian conflicts run deep. Iraqi Arabs might once again fall out with Iraqi Kurds. The Kurds themselves are divided between two rivalrous parties that have fought before and might do so again. The Shias might turn on the Sunnis or the religious on the secular. Armed remnants of the regime could make common cause with the Islamists they once suppressed against the infidel invaders. Or all of these things could happen at once.

To Iraqis, moreover, America is an improbable liberator. Those old enough to remember it despise the Americans for abandoning the uprising Mr Bush's father incited in 1991. The younger ones have been schooled to despise America for (they believe) imposing sanctions on Iraq and Zionism on Palestine. To such people—and to the masses beyond who witnessed this week's startling scenes on television—the notion that America might be a force for good in the lives of Arabs must be thoroughly discombobulating. At the beginning of the week, much of the Arab world felt shame and rage as the Americans routed the Iraqis. By its end, the Arabs could see that many Iraqis preferred liberation by the Americans to repression by one of their own. Like the toppling of the twin towers, the jubilant toppling of Mr Hussein's statue in downtown Baghdad was the sort of event that has the power to shape the beliefs and behaviour of millions.

This is both a great opportunity and, surely, America's moment in the Middle East. Mr Bush did not launch this war on behalf of the people of Iraq. He went to war because, after September 11th, the prospect that a man such as Saddam Hussein would keep his outlawed chemical and biological weapons, or obtain nuclear ones, seemed too big a danger for America to live with. Nonetheless, Mr Bush has now staked his political future on the adventure ending right, with the creation of a stable Arab democracy. Though he had allies, especially the faithful Tony Blair, it will be remembered as his war, the one he insisted on fighting even when America tried and failed to get the clear mandate it sought from the Security Council. He has a bigger interest than any other world leader in winning the peace as well as the war.

Needless to say, those who predicted with such confidence that America would make a hash of the war are now predicting confidently that it will mess up the peace. And so it may—for any or all of the reasons above. Still, failure is not pre-ordained. In the unsuave way of his that has caused him to be chronically under-estimated in Europe, Mr Bush said at this week's Belfast meeting with Mr Blair that he considered Iraqis “plenty capable” of running their own country. At Mr Blair's urging, he has also promised to energise the search for peace between Israel and the Palestinians. Given how much depends on getting his moment in the Middle East right—from his own re-election to America's standing in the Islamic world—he has every reason to mean what he says.

...but not in their name

First, though, he must deal with a complication. Having failed to stop the Americans and British from launching this war, France, Russia and Germany, which led the anti-war diplomacy, are now intent on denying the victors a special say, let alone a free hand, in putting Iraq back together. At their Belfast summit, Mr Bush and Mr Blair promised that the UN would have “ a vital role” in post-war Iraq. For Jacques Chirac, however, this does not seem to be enough. France's president insists that the UN, and it alone, must rebuild the country and give it a new government. He will seek support for this at a weekend summit in St Petersburg with Russia's President Vladimir Putin and Germany's Gerhard Schröder.

As it happens, there is a lot to be said for giving the UN a prominent job in Iraq. It has useful experience and dedicated professionals. By giving a substantial role to the world body, the Americans can help to persuade the sceptical that they are acting in a wider interest than just their own. A new Iraqi government that receives a blessing from the UN, and comes into being by means of a procedure the UN endorses, is far less likely to be seen by Iraq's people as the creature of the United States. In short, Mr Bush himself has much to gain by using the UN to lower America's profile in Iraq once the war is over. And it would be good to mend some of the damage the pre-war rift did to relations within the Security Council.

But not at any price. The danger posed by Mr Chirac and his *salon des refusés* is that they still give the impression of caring more about hobbling America's power in the world than about helping America to achieve its ambitious aims of peace and democracy for Iraq. If their price for bringing the UN into the picture is that America must lose all its freedom of manoeuvre in Iraq, where it is Mr Bush who is bound to be blamed anyway for whatever happens, he should refuse to pay. It would be folly to allow the post-

war transition to follow the enervating pattern of the pre-war diplomacy. There is simply too much at stake to go through all that again.

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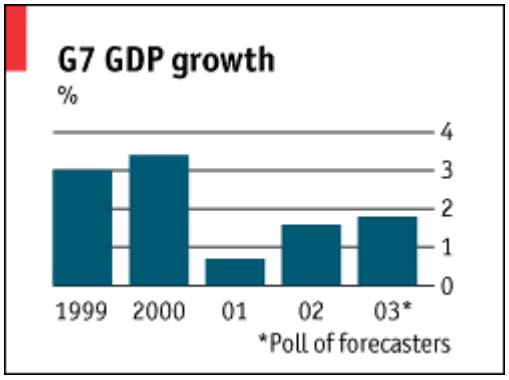
World economy

Post-war blues

Apr 10th 2003
From The Economist print edition

Despite a quick victory in Iraq, the world economy still looks sad



WITH the war all but over, its short-term economic impact now seems to have been remarkably small. A quick victory, no big oilfield fires and the absence of new terrorist attacks have allayed economists' worst fears. Far from rising, oil prices have fallen to around $25 a barrel, and they look likely to stay there. The doomsday scenario of a global recession triggered by a long and messy war can now be dismissed.

That is great news. But it does not mean that the world's finance ministers, meeting in Washington, DC, this weekend, would be right to rest on their laurels. For the global economy still looks extremely sickly. Nervousness about the war was not the only, nor even the main, ill troubling it. Other weaknesses existed long before coalition troops entered Iraq. Two stand out: the continuing repercussions of the bursting of the bubble of the 1990s, and excessive reliance on America as the driver of global growth.

Since 1995 America has accounted for more than half of the growth in the world economy. That pattern looks likely to continue. Opinions differ as to how strong America's post-Iraq rebound will be, but nobody doubts that it will still lead the rest of the world. According to the IMF's latest forecasts, published this week, America's economy will grow by 2.2% in 2003: not exactly surging, but a lot more than Europe or Japan, where the outlook has darkened substantially. The euro area seems to be fast heading back towards recession, with output likely to rise by only around 1% this year. Germany, Europe's biggest economy, is barely growing at all; its output this year will rise more slowly even than Japan's (see article).

America's relative strength owes a lot to the flexibility of its economy and to continuing strong growth in productivity. But it also comes from fortuitously good macroeconomic policy. As the economy stumbled over the past two years, the Federal Reserve cut interest rates dramatically and quickly. Short-term rates are now at 1.25%. Given today's fragilities, there is a case for even looser monetary policy. If the economy falters once more, the Fed is likely to respond again. Fiscal policy, too, has given a boost, as America's federal budget has swung sharply into deficit. Spending on the war and homeland security is soaring. Even though Mr Bush's tax plan has run into trouble in Congress, more tax cuts are likely.

This may be good for the world economy in the short term, but too much reliance on America to drive global growth courts medium-term disaster. America's current-account deficit is over 5% of GDP. Future deficits of 7% of GDP or more are possible. Such imbalances are unsustainable. The bigger America's current-account deficit, the greater the risk that it will trigger a collapse of the dollar followed by new protectionist pressures—and maybe lead to a global slump.

The onus outside America

Stronger growth beyond America is needed urgently. That demands work on several fronts. A speedy revival of the stalled Doha round of trade talks, for instance, would brighten the prospects for developing countries. In the meantime, the main responsibility lies with the world's biggest stagnant economies: continental Europe and Japan.

In Europe that requires both faster liberalisation and better macroeconomic policies. A new IMF study

suggests that deregulation could add 10% to Europe's GDP in the medium term. The German government's plans to improve work incentives are no more than a start. Monetary policy should also be looser. With economies so weak and spare capacity so high, deflation is a serious risk. The European Central Bank should recognise this and cut rates fast. And the fiscal focus should switch to stimulus, as it has in Britain. Only once Europe's economies are growing will it be right to tackle the longer-term health of the public finances. It is absurd to cut spending and raise taxes in the teeth of a recession, as the European Commission is demanding in accordance with its comically misnamed stability and growth pact.

Japan's mess shows how hard monetary policy is when deflationary expectations are entrenched. There, too, more could be done to convince consumers that stopping deflation is the government's overriding goal. And it must be supported by more vigorous corporate and financial restructuring.

These actions, even if taken together, may be too little to reverse the lopsided pattern of global growth overnight. But they should gradually begin to reduce today's reliance on America. In the long term that, even more than a victory in Iraq, is the key to a buoyant world economy.

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Dealing with North Korea

Diplomacy needs backing

Apr 10th 2003
From The Economist print edition

America needs more help from the neighbours

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AP

THIS week an unrepentant North Korea became the Nuclear Non-Proliferation Treaty's first official drop-out. The NPT is the world's bulwark against the spread of nuclear weapons, so why has the UN Security Council taken until this week—three months after North Korea's boss, Kim Jong Il, announced he was tearing up the treaty—even to meet to discuss the issue? Because China and Russia, whose governments roundly criticised America for acting unilaterally, without formal UN blessing, to disarm Iraq, have been pushing America to deal with North Korea's weapons of mass destruction ambitions, well, unilaterally and without formal UN blessing. They, and neighbouring South Korea and Japan, also want the matter handled peacefully. If so, they need to do more to help.

Prickly North Korea says it will deal only with America. It pulled out of the NPT, it says, because it felt threatened and the treaty provided no defence (nor should it, of rule-breakers). Instead Mr Kim wants America to sign a separate bilateral non-aggression treaty, and threatens all sorts of dire consequences unless he gets his way. He claims that America's call for others to join in any talks is meant to put pressure on North Korea.

In that, Mr Kim is right. Back in 1992, when North Korea was first caught breaking the NPT by producing more bomb-usable plutonium than it had owned up to, America looked to the Security Council and to the neighbours for help and got none. It was left to scramble together a deal that promised the North energy help, including two western-designed nuclear reactors, in return for the freezing and dismantling of its plutonium-making. But America's weak hand meant that North Korea got away without proper checks on its nuclear industry. And last year Mr Kim was caught secretly enriching uranium. So America is determined that this time North Korea's bomb-tinkering must end, verifiably and for good.

That is, assuming North Korea is looking to trade in its bomb-making. Might Mr Kim be calculating that he can hang on to any weapons he has and build more, using more threats to extract still more bribes from his alarmed neighbours? No one, not even half-friendly China, really knows. Talks are a way to find out. But meanwhile expect Mr Kim to keep ramping up his demands, unless China, Russia, South Korea and Japan all help America draw a line.

With reluctance, they are starting to do so. China is pressing North Korea to accept a multilateral cover, so that direct talks with America can happen behind it—and may have had to turn off its oil taps briefly in February to get Mr Kim's attention. Japan says promises of future aid and better relations will be off the table if Mr Kim starts making more plutonium or fires off another of its far-flying rockets. South Korea is touting a “road map” that is meant to reassure America by encouraging North Korea to negotiate in good faith.

No cheat and repeat

And if it doesn't, or refuses to talk at all? Then sterner measures will be needed. This crisis has already dampened investment in South Korea's economy and led some in Japan to wonder whether they should

have nuclear weapons of their own. Yet so far China has blocked condemnation of North Korea's actions at the Security Council, let alone talk of sanctions. That is a mistake. For unless America is given as strong a diplomatic hand as possible this time, North Korea may miscalculate that it can again cheat and get away with it.

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Cuba

Castro cracks down

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Cuba's regime is engaged in a new round of political repression

AP

WHILE the world was distracted by the start of the war in Iraq, Fidel Castro, a master of the dark arts of propaganda and repression, unleashed the harshest crackdown on dissent in Cuba since at least 1994. This week, in summary trials, courts were handing out sentences of up to 28 years in prison to the 78 people arrested. They are charged with conspiring with the United States. Their crime is that they met some American diplomats.

Since the fall of the Berlin Wall and the ending of Soviet subsidies, Mr Castro has been forced into a delicate balancing-act. He presides over a dual economy: enclaves of foreign investment and tourism coexist with the dreary incompetence of central planning. Politically, he brooks no serious challenge to the Communist Party's monopoly of power. Dissidents have therefore been harassed as much as is necessary but, in deference to his trading partners in Europe, Canada and Latin America, tolerated as far as possible—until now.

The new crackdown suggests that Mr Castro is more rattled than he has been letting on. Thanks mainly to the worldwide slump in tourism, Cuba's economy is again in the doldrums. And for the first time, his control has come under credible, if still largely symbolic, threat. Last year a new group, the Varela Project, named after a 19th-century Cuban patriot and of Christian-democratic inspiration, launched a petition to demand basic political freedoms. It claims that so far some 20,000 Cubans have been brave enough to sign.

Against this mosquito, Mr Castro deployed an elephant: his regime somehow managed to persuade 8m Cubans to sign a counter-petition. But two things make the Varela Project hard to brush off. First, unlike most of the opposition, the movement is based in Cuba, not Miami. Second, it says it accepts the constitution and is committed to peaceful democratic change. The arrests are clearly aimed at smashing this incipient challenge: many of the detainees were grassroots activists for the project, and 28 were independent journalists (see article).

So as a curtain of silence again falls over Mr Castro's island, how should outsiders react? The United States now has a muddled twin-tracked policy towards Cuba, one that mirrors Mr Castro's own strategy. Congress, at the prompting of the mid-western farm states, has punched self-interested holes in the 42-

year trade embargo against the island. To compensate, the Bush administration has stepped up self-defeating attempts to support the dissidents—providing Mr Castro with a rhetorical pretext for the crackdown.

The trade embargo has indisputably failed to unseat Mr Castro. It simply allows the old autocrat to wrap himself in the flag of Cuban nationalism. This newspaper has long called for it to be scrapped. If that is too much for an administration with many friends in Florida, then at least the White House should make it clear that it would end the embargo in return for steps towards respect for human and political rights in Cuba.

As for the European Union, it is negotiating Cuba's entry into its Cotonou preferential trade pact. “Respect of human rights and fundamental freedoms are essential elements” of Cotonou, according to the EU's development commissioner. Cuba plainly fails to comply. The EU should heed the dissidents' calls to stop the talks. Trade, but without preferential alliances and other gestures of friendship and confidence, will be the right policy as long as Cuba remains the only country in the Americas where political freedom is wholly absent.

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About sponsorship

Britain's economy

The budget that wasn't

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From The Economist print edition

Britain has a two-faced chancellor

Reuters

Get article background

BUDGETS used to be grand occasions in Britain, and they are still supposed to be full of initiatives. This one was not, which is fine. The chancellor of the exchequer, Gordon Brown, hitherto a seriously hyper-active type, needed a break from using fiscal policy to mend every last thing in the economy that does not work exactly as he thinks it should, and so did the country. There were a few gestures of that Brownian kind on April 9th—how could there not be?—but the chancellor's heart was not in it, and he used most of his time for the comparatively harmless purpose of bragging about how well he and his economy are doing.

Much of this boasting, more than many voters might think, is actually justified. By the standards of other rich countries, the British economy is doing well in difficult circumstances. As the chancellor said, Britain has faster growth and lower unemployment than most others; its inflation is low; its public borrowing is not excessive, allowing for the country's position in the business cycle; and its public debt is modest. Growth is undoubtedly fragile, given the risks of a worse downturn in the world economy (as the chancellor emphasised), and the worryingly rapid accumulation of personal debt that has helped to buoy consumption (which he neglected to mention). But fragile growth at Britain's rate of 2.2% during 2002 is still a lot nicer to have than fragile growth at France's 1.7%, Italy's 1.0% or Germany's 0.5%.

Moreover, economic policy deserves much of the credit for this. The best thing this chancellor of the exchequer did and most likely ever will do was his very first act as finance minister: he gave the Bank of England a huge piece of his job, in the form of operational control of monetary policy. His bold decision to separate interest-rate changes from short-term political calculations has proved an unqualified success. The comparative strength of the public finances is also Mr Brown's doing—a tribute to his fiscal conservatism. Make that fiscal Conservatism, in fact, because Mr Brown's strategy was to abide by the Tories' austere public-spending plans during Labour's first years in office. The surpluses thereby created were used to pay down debt, and gave the government its present ample room for manoeuvre.

On macroeconomic policy, Mr Brown has done well. The failures lie elsewhere, in microeconomic strategy.

The government has abandoned its early inherited restraint over spending. It is freely pouring cash into the public sector, into health care and education especially. Given that it rightly intends to maintain curbs on borrowing, this means substantially higher taxes. After this budget-that-never-was, taxes are nonetheless going up by some £8 billion a year because of measures (notably, higher national-insurance contributions and frozen income-tax allowances) which the chancellor prepared earlier. Taxes as a proportion of national income are now on a firmly rising trend, climbing roughly in parallel with the ambition of the government's extravagant promises of improvements in public services.

Let it rain

If those improvements materialise, then Britain may well judge that higher taxes are a price worth paying. The chances are they will not, and the reason, once again, is the chancellor. The formidable Mr Brown shows no desire for fundamental reform of the great public-service monoliths—quite the opposite. Also, because of its abruptness, much of his monsoon of additional resources will fail to seep through to the quality of services supplied; instead, it will mostly wash away in inflated costs and higher public-sector wages.

In macroeconomic policy, Mr Brown is a huge improvement over previous Labour chancellors, not least because he understands the Treasury's limitations in that sphere. In microeconomic policy, Mr Brown has no such sense of fallibility. His vision is taking Britain back whence it came, to high taxes, high public spending and third-rate public services.

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Letters

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Rebuilding Iraq

SIR – You underplay the risks that America faces in Iraq in light of what we know about urban warfare, the prevalent attitude towards the United States in the Middle East, the fractious nature of Iraq, its unscrupulous neighbours, the chaotic nature of Iraqi politics prior to Saddam Hussein's dictatorship and the lack of alternative leadership ("At the gates of Baghdad", April 5th). As for establishing a liberal democracy in Iraq, I remain unimpressed with the Bush administration's ability to handle unruly foreign political bodies.

Israel's intervention in Lebanon in 1982 is instructive. It was initially greeted by jubilant villagers in Shia towns grateful to see the Palestinian militias removed. A few months later, those same people lent their sons to Hizbullah to remove the Israelis. The final result for Israel after a unilateral withdrawal many casualties later: a dented reputation for invulnerability, the ceding of political oversight in Lebanon to Syria and the elevation of Hizbullah to a power in Lebanese politics. Israel turned a chaotic state into one united in opposition to Israel and supplied a model for the Palestinian *intifada*.

While I have no doubt that the Iraqis will be pleased to see the back of the Baath Party, the task the coalition has set for itself would be a tall order for the most skilful of nation builders. I fear that George Bush will come to regret having lost his initial distaste for that activity.

Marlin Lathrop
San Francisco

SIR – I object to the condescending and insulting tone with which you describe Arabs. You suggest that democracy has "eluded" Arab nations largely through a failure of Arabs to embrace it. A look at history would say otherwise. During the Iran-Iraq war, America provided Saddam with the weaponry and expertise that kept him in power and America continues to back the house of Saud despite its oppressive stance against democracy. What Arabs need is liberation from America.

Homa Mojtabai
Rostock, Germany

SIR – You callously say that the fewer than 1,000 civilian deaths in two weeks of fighting are negligible by the standards of war. Perhaps next time a terrorist group strikes a western target in what it considers a just war, you will elaborate on why civilian casualties are negligible in one case but not in another?

Chris Marolf
Menlo Park, California

SIR – The main reason for going to war was to get rid of Iraq's weapons of mass destruction. It seems odd that the lack of WMDs is scarcely mentioned by *The Economist*.

Ludo Marcelis
Roeselare, Belgium

No French poodles

SIR – Whatever happened to the pre-war objective analysis in *The Economist* ("Can Gaullism work today?", March 29th). President Jaques Chirac was elected less than one year ago with 80% of the popular vote. His policy is supported by 85% of the French population. The French position on Iraq is not politicking, it is just what French people think. It seems that freedom of speech and politics, which the Anglo-Saxon world so ardently desires to impose in Iraq, is not allowed in France. If you no longer drink our champagne nor holiday in the Dordogne, so be it; but we will be nobody's poodle.

Richard Vinson
Olivet, France

EU's man in Havana

SIR – The European Commission has indeed opened a permanent representation in Havana, in February 2003 ("Wary partners", March 15th). Cuba is the only country in Latin America and the Caribbean with which the EU has no formal co-operation agreement but I am afraid your assumption that the "new office will only deal with trade matters" is a far cry from reality. Given the European Commission's competencies in this field, trade will certainly be an important issue, but as important are development co-operation (the commission is financing some 45 ongoing projects in the country) and political relations.

Sven Kühn von Burgsdorff
Chargé d'affaires
European Commission delegation
Havana

Miscalculation?

SIR – Your article on number theory is aptly titled ("Primed to go", March 29th). The Indian mathematicians who provided the breakthrough were "primed to go" to America to receive an award at the Clay Mathematical Institute in Boston. Unfortunately, the State Department decided against the issuance of visas for the trip, presumably on the grounds that mathematicians from the sub-continent might constitute a terror threat. Ironically, it is America's National Security Agency that would stand to benefit the most from leading basic research such as this into applications like codebreaking that might well aid it in its "war on terror".

Sanji Shivalingam
Sydney

Forget the debt

SIR – Your suggestion that campaigns to persuade companies to drop old compensation claims against debt-strangled poor countries will deter investment is not borne out by fact ("Forgive debt, not theft", March 22nd). Oxfam's campaign against Nestlé's demand for $6m from Ethiopia, where 11m people face starvation, has not led Nestlé to pull out from that country. Rather, the company has committed to spend any money it receives on famine relief and will continue to invest in Ethiopia.

The campaign was motivated by the fact that Nestlé's claim was as dubious as it was disproportionate. Ethiopia had already said it was prepared to pay compensation of $1.5m and had asked MIGA, the World Bank's agency that helps resolve disputes and promotes investment in emerging economies, to negotiate a fair deal. There is no business case for companies to demand excessive amounts for old debts incurred during nationalisations carried out decades ago under previous administrations. Any losses to companies from such nationalisations have long since been written off. The decisions by Iceland and Nestlé to drop their claims were a timely recognition of the need to make trade fair by improving the balance between the pursuance of profit and the needs of the poor.

Barbara Stocking
Director
Oxfam
Oxford

Don't forget Congo

SIR – You report that 3.5m people may have died in Congo's five-year civil war (“Peace, they say, but the killing goes on”, March 29th). The main killers—malnutrition, diarrhoea, malaria and obstetric complications—can be countered significantly by humanitarian aid. Yet funds are in short supply. With eyes diverted to Iraq, hopefully aid to tragic countries like Congo will not also be diverted, though there are worrying signs in America and Britain that this may happen. Must the poorest and most deprived nations also pay a price for the Gulf war?

Geoff Prescott
London

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War in Iraq

The tipping point

Apr 10th 2003 | BAGHDAD
From The Economist print edition

Reuters

In the end, it was Saddam Hussein they hated more

Get article background

A MERE 21 days after the war began, the watching world got its answer to the question that could be answered no other way. Yes, Saddam Hussein was indeed a dictator feared and reviled by his own people—not only by the Kurds and Shias to whom his Sunni-dominated regime had shown a particular cruelty, but also by ordinary people in the capital of Baghdad. A few fought gallantly for him, squirting machinegun fire vainly at the American armoured vehicles moving slowly across the bridges of the Tigris. But most seemed content—and many were plainly delirious—to see the regime collapse.

If the fall of a regime has a single moment of collapse, it came on April 9th. Iraqi television, whose continued broadcasts in the face of much bombing had become a symbol of Iraqi resilience, was at last off the air. Close to the Palestine Hotel, where the western journalists were based, several hundred civilians collected around a statue of Saddam, perched upon a massive plinth. The crowd decided to topple it.

One man began to use a sledgehammer to knock divots off the plinth. Others climbed up to tie a rope around the head. As television crews gathered, it became plain that none of this would bring the statue down. Eventually, an American armoured vehicle came to the rescue. A marine attached a cable and—briefly, before correcting his *faux pas*—an American flag. Soon the statue came down. A cheering crowd pounced upon it in a frenzy of derision and glee. Roaring with laughter, some onlookers adapted a favourite Saddam-era chant to the new circumstances: “With our blood, with our soul, we'll defend you! Bush! Bush! Bush!”

This was not the Berlin Wall. The crowd in the square was small. But the electrifying episode was broadcast live around the world. In London, Downing Street's spokesmen let it be known that the prime minister was watching transfixed. In the Arab world, reported Reuters, viewers reacted with shock and denial. For the Palestinians, many of whom had seen Iraq's strongman as a potential liberator (and one who had rewarded the families of the Palestinians' suicide bombers), the abrupt exposure of weakness was a special blow. “This is a tragedy and bloody comedy,” said a shopkeeper in Ramallah. “We cannot believe what we see. What happened? It seems that the Iraqis have given up Baghdad without a fight.

Where is the Iraqi army? Have they evaporated?”

In fact, part of the Iraqi army did try to fight. Ever since the bombing campaign began, on March 20th, the Iraqi authorities had promised the Americans a long guerrilla war in the capital. They dug trenches across Baghdad and built hundreds, possibly thousands, of sandbagged positions. They knew that the Americans would be wary of engaging them with their full fire-power in civilian areas.

And so they were. But Iraq's tactics did not help. The Americans first fought the battle for Baghdad by grabbing strategic sites rather than wading through civilian districts. These included the Saddam International airport, captured on April 3rd, and one of the main presidential complexes, close to an area of ministry buildings. They made runs through southern parts of the city in armoured convoys, shooting up passing military traffic and occasionally non-military traffic as well.

On April 8th, the Iraqis mounted a counter-offensive, only to learn to their cost what “shock and awe” might mean. American A-10 “tankbusters” wheeled over the city, their guns making an unearthly and deadly rattling sound. Suddenly, the men with rocket launchers and Kalashnikovs in their slit trenches in parks and in ministry buildings got a taste of American firepower. Resistance did not last long. The armed men faded from the streets. Some said they thought that the bulk of Iraqi fighters were drifting home.

At this point, ministerial press conferences, which had been running at a rate of up to four a day and which foreign journalists had been strongly advised to attend by the Ministry of Information if they did not want to be expelled, petered out. Iraqis speculated that the government had fled to Mr Hussein's birthplace, Tikrit, to make a last stand. But no one knew anything for sure, and there was nobody left to ask.

At the beginning of the week, many ordinary Iraqis had clung to the belief that their government was telling the truth. The rest of the world had seen pictures of American troops at the airport and in Mr Hussein's palaces. These were assumed to be con-tricks perpetrated by the western media. After all, Baghdadis said, several claims made early in the war by the British and Americans had proved to be untrue.

Not until April 8th, when American tanks appeared on the city's Jumhuriya Bridge for all to see, did this self-delusion end. Asked why he had not believed that the Americans were in the city until then, one shopkeeper said: “Because it happened all of a sudden.” In fact, it had not; he just believed that to be the case.

Down his street, black smoke billowed from Iraqi-lit oil fires designed to confuse missile-guidance systems. Men stood in worried groups peering into the sky at the aircraft wheeling overhead. Many of the residents in Saddam City, where the Shias live, welcomed the invaders noisily and jubilantly on the streets. In other places, too, Saddam iconography was defaced and torn down. But most Baghdadis were hunkering down until it was safe to come out. Many families were leaving the city or moving to safer areas.

By Wednesday evening, American tanks reached Tahrir Square in the centre of town, their occupants stepping out to be greeted by Iraqis and gaggles of journalists. “The real Iraqi people say thank you to British and US forces because they made us free,” said Sadiq Jafar, who was watching with his three young daughters. “They have made a future for my children—not for me, but for my children.”

Yet the welcome was a mixed one. “They have destroyed our country,” said one bitter 18-year-old girl, as the tanks moved past her house. Parts of the city were given over to looting and score-settling; by the day after the statue-toppling, the residences of various regime leaders had been energetically and comprehensively stripped. In other parts, men went on fighting. In the distance, and closer by too, explosions could be heard. On the western bank of the Tigris, forces loyal to Mr Hussein were still in control of several districts, and the battle for them continued. Although many of the Special Republican Guard and other security forces had been killed or had fled, non-Iraqi Arab fighters—seasoned, determined *jihadis*—were doing their job for them.

Civilians were frightened; American troops, who killed three journalists on April 8th, were jumpy too, some of them firing first and asking questions later. Iraqis listening to foreign broadcasts could hear pundits asking, “Where is Saddam Hussein?” But they wanted to know where their entire government was, and where the heroic defence of Baghdad that they had been promised. On the morning of April 10th, American troops had a fierce firefight around a mosque in the north-west of the city where it had been rumoured that Mr Hussein was hiding.

Casualty figures are hard to come by, especially as the authorities have ordered doctors in the Al-Kindi hospital, at least, to lie to journalists and say that all their casualties are civilians, when plainly they are not. Stand by the door of the emergency unit and ambulances, cars and pick-ups come screeching in every few minutes. Many, if not most of those who are man-handled out on to blood-soaked trolleys, their clothes also drenched with blood, are young men aged between 18 and 30. Some are in uniform and some are accompanied by Kalashnikov-wielding comrades-in-arms. But civilians are dying, too. One woman burst from the back of an ambulance screaming and wailing: in the back were her three dead boys, none of whom could have been older than ten. Everyone you speak to in this city knows where civilians have died in their neighbourhood. Some have friends and family who have been killed and injured.

Welcome, thank you and goodbye

The toppling of Saddam's statue was greeted with jubilation by the crowd. Like an omen, the smoggy grey dome above the city, caused by the oil fires ignited to defend it, began to clear that day, giving a sight of blue sky again. But many in this city of 5m people were staying silent rather than celebrating. A lot of Baghdadis fear a collapse of law and order; everyone wonders what will happen to their country. Mr Sadiq, with his three little girls, spoke for many when he asked this correspondent to convey an urgent message to “Bush, Blair and Straw”: “You have come to make the Iraqi people free but then, when we have made a government with a free vote, you must go.”

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Assessing the campaign

The reckoning

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Where did it all go right?

AP

No resemblance to Vietnam

Get article background

ZENO, an ancient philosopher, devised a mathematical paradox in which a tortoise beats Achilles in a running race: the tortoise gets a head start, and although the distance between them narrows and narrows, Achilles can't overtake him. It has sometimes seemed that something similar has been happening in Iraq. The expected showdown between the American Achilles and Saddam Hussein's forces seems to have been perpetually postponed. Voices that not so long ago were questioning whether the coalition had underestimated Iraq's fighters are now asking where those fighters have gone, as the distance between the Americans and central Baghdad has dwindled to nothing.

A climactic battle may yet occur. Saddamite loyalists from the *fedayeen* and other security and paramilitary groups may be lurking among the celebrants and looters in Baghdad, and some are taking on the invaders away from the wide boulevards that the American tanks can easily dominate. Or they and their leaders may have retreated to Tikrit, Mr Hussein's tribal stronghold north of Baghdad on the Tigris. The coalition has control of the main northward roads, but the encirclement of Baghdad is porous. American reinforcements may be heading for Tikrit, though commanders could prove less squeamish about subduing that town from the air than has been the case elsewhere.

Still, the fabled “tipping point” does seem to have arrived. The Americans can manoeuvre at will in much of Baghdad. After much patient probing, and the presumed death of Ali Hassan al-Majid (“Chemical Ali”), Mr Hussein's satrap in the south, British forces occupied Basra, Iraq's second city, meeting little resistance and a good deal of elation. Amid widespread looting, some reprisals and a continuing water shortage, the Brits are trying to revive a skeleton civil society, identifying and recruiting local leaders, as they have done in Umm Qasr. In the north, joyous Kurds celebrated the removal of Mr Hussein's spectre. Kurdish and American forces entered Kirkuk, a vital oil town, on April 10th, and closed in on Mosul.

Invisible men

Along with the fighting that may still be to come, three outstanding mysteries qualify the sense of

impending victory. First, the whereabouts of Mr Hussein. In the absence of DNA evidence or eye-witnesses, it is impossible to say whether the latest attempt to assassinate him, in the Mansour district of Baghdad on April 7th, succeeded (though it did kill a number of civilians). Like that of Osama bin Laden, Mr Hussein's fate remains a matter of speculation.

The second mystery concerns the Republican Guard and Mr Hussein's other supposedly loyal troops. This in turn is part of a bigger question: why has Iraq fought the war so ineffectively?

Partly because the coalition has fought rather well. The lightning American advance on Baghdad, beginning before the air-war proper, recovered an element of surprise that the large and ponderous deployment seemed to have forfeited. Dams and oil-fields were seized intact. Calculated risks were taken with flanks and supply routes in order to get to the city swiftly.

This awesome advance—swifter than the Germans in Russia or the Israelis in Sinai—failed to shock Mr Hussein's regime into submission. But America's subsequent armoured thrusts into the city may have. These so-called “thunder runs”, designed to demoralise the enemy, were like mini-versions of the race up from Kuwait. Their violence contrasts with the British tactics in Basra; but they have enabled the Americans to take much of Baghdad in a way more reminiscent of the clean fall of Saigon to the North Vietnamese than of the bleaker historical analogies (Stalingrad, Grozny, Mogadishu) that were popular among commentators until recently.

But however innovative the strategy, the bald truth is that this war has pitted the most powerful armed forces in history against a brittle dictatorship, whose army was crippled by sanctions. The coalition has enjoyed almost complete aerial freedom, which has aided the ground advance and kept the Iraqis hunkered down. The range and accuracy of coalition artillery is also vastly superior. The coalition would almost certainly have won even if it hadn't fought cleverly (which it did) and the Iraqis had fought well (which they didn't).

Many Iraqi soldiers, especially those in the regular army, didn't fight at all, surrendering or running away. Some have used reprehensible tactics, though America's conventional pre-eminence may itself encourage adversaries to fight dirty. But this resistance has not extended to obvious defensive measures such as dynamiting bridges. (The invasion's speed, coalition warnings, disruption of Iraqi communications, and a lack of initiative among Iraqi officers may explain these rudimentary failings.) Even those troops who defended Baghdad have mainly done so with more fanaticism than technique. In one of his defiant pre-war rants, Mr Hussein made an infelicitous allusion to the sacking of Baghdad by the Mongols in 1258: the way its modern vanguard rushed suicidally at American armour rather than confronting it from entrenched positions helped to ensure a similar outcome in 2003.

Away from the television cameras, many Iraqi soldiers have been killed—largely by the air power which, as the war progressed, has increasingly been turned against them. The exact number may never be established: after the first Gulf war, unreliable estimates were obtained by extrapolating from the number of destroyed Iraqi vehicles. The coalition's guess that it killed several thousand men on one “thunder run” alone is telling. Conversely, the number of coalition casualties remains amazingly low. And while drawing a line between the ten civilian deaths that would be acceptable and the 10,000 that wouldn't is difficult and distasteful, it seems that those inflicted thus far are at the tolerable end of that spectrum—though the humanitarian problems in Baghdad and elsewhere could yet tarnish victory.

So could the third mystery: Iraq's alleged weapons of mass destruction (WMD). The coalition now says that finding them, like finding Mr Hussein, or what's left of him, can wait. Donald Rumsfeld, America's defence secretary, has promised rewards to Iraqis who help to unearth them (he also talked darkly about industrialised countries who had helped to arm Mr Hussein). Michael Eisenstadt, of the Washington Institute for Near East Policy, warns that the elusive loyalists may be planning a campaign of guerrilla resistance. The prospect of WMD falling into such hands is more than ominous.

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Post-war Iraq

Fighting for authority

Apr 10th 2003
From The Economist print edition

What are America's plans for a post-Saddam Iraq? And can they get international and local support?

Magnum

A task for many hands

Get article background

NOW that the war is virtually over, Iraq must be governed; and its government is planned to evolve in three stages. The first will be, in effect, an American military administration. The second will be what Paul Wolfowitz, America's deputy secretary of defence, describes as a bridge: an interim authority, or quasi-government, which will gradually take over day-to-day administration from the Americans. The third will be, with luck, a permanent and elected Iraqi government. On that, everyone is happy and agreed. It is the first and second stages that are causing diplomatic rifts as deep as those that preceded the war itself.

The first, all-American, phase of Iraqi reconstruction is to be managed by the Office of Reconstruction and Humanitarian Assistance (ORHA). It will place its people in all Iraqi ministries, first to run them, then as advisers. It is headed by a retired general, Jay Garner, who reports to the overall commander in Iraq, Tommy Franks, and to Donald Rumsfeld, the defence secretary. In other words, this is a takeover of Iraq's administration by the Pentagon—"unilateralism on steroids", as one American critic complained. Some Kurdish and Shia groups have denounced the office as military colonisation.

They have reason for anxiety. Mr Rumsfeld is reported to have vetoed the names of Arabic-speaking experts who know the country in favour of ideological soulmates (the Pentagon denies this). Last week, in an attempt to rein the Pentagon in, the House Appropriations Subcommittee on Defence (the starting point for defence bills in the legislature) passed a funding package that makes the State Department, not the Department of Defence, responsible for ORHA money.

Such worries may be overdone. In practice, most advisers have turned out to be former ambassadors and technocrats, not ideologues. It makes good sense to put the Pentagon in overall charge: unlike the State Department, it knows how to manage huge projects. And experience elsewhere teaches that the military and civilian authorities need to be closely aligned, in order to give proper authority to the new government. The real ground for worry is that the Americans may not stay long enough. General Garner talks of getting his job done in three or four months—a mightily optimistic timetable.

The interim authority is much more controversial, and is the subject of furious debate across the Atlantic. Originally, Pentagon planners argued that the authority should be dominated by Iraqi opposition leaders in exile, whom they knew and trusted. The British (and the State Department) replied that these people would not necessarily have a following inside Iraq, and argued that legitimacy would best come by promoting local figures to the interim authority. Britain's Tony Blair, fearing that an American-appointed and run administration would be seen as a puppet, wanted to internationalise the post-war settlement by giving the UN a role in naming members to the interim authority and in endorsing it, perhaps through an international conference, as in Afghanistan.

France has been yet more forthright, demanding that the UN must take over as soon as the fighting stops. The task of rebuilding Iraq, said Jacques Chirac, France's president, on April 8th, “is a matter for the United Nations and for it alone.” He was expected to pursue that line when he joined the German and Russian leaders for what was to have been one of their regular bilateral summits in St Petersburg over the weekend of April 11th-12th.

Making this a trilateral affair, linking the three countries on the Security Council most opposed to a war, makes it look as if the fight will indeed continue over the peace. In an effort to prevent that happening, on April 7th George Bush sent Condoleezza Rice, his national security adviser, to Moscow to start repairing relations with President Vladimir Putin and his senior officials. Meanwhile, the UN's secretary-general, Kofi Annan, will soon be on the road too, trying to bring the Security Council back together—one reason he refused an invitation to the gang-of-three session in St Petersburg.

Yet Mr Bush remains reluctant to hand over real power in Iraq to the UN. Most of its members, after all, opposed military action. A bigger concern, though an unstated one, may be that his re-election prospects next year will depend in part on successful reconstruction in Iraq, and he does not want to leave that hostage to the French and the Germans.

Not surprisingly, the upshot of these conflicting interests has been a messy compromise. At a summit meeting in Northern Ireland this week between Messrs Bush and Blair—their third in three weeks—the British won American agreement that the interim authority would not be dominated by Iraqi exiles. The White House is now seeking to ensure that the exiles do not, in fact, hold sway.

The British also persuaded the Americans to give the special representative of Mr Annan an indirect role in choosing the interim authority. But Mr Bush ruled out giving the UN any direct role, and retained the final say in deciding the authority's composition and power.

In fact, the UN may well get involved in other ways: despatching inspectors to verify any finding of weapons of mass destruction, for instance (the Security Council claims jurisdiction over this). And without a UN resolution, bilateral donors and institutions such as the World Bank and IMF will not be able to lend money. Most of all, the UN will naturally provide much of the humanitarian assistance.

Mark Malloch Brown, the administrator of the United Nations Development Programme, argues that Iraq may prove the opposite of other such reconstruction efforts. In Afghanistan and East Timor, establishing a legitimate government proved easier than expected. The real challenges lay in providing food and water, rebuilding infrastructure and guaranteeing basic security. In Iraq, it may well be the other way around.

Security rests squarely with the coalition forces. Their composition will change. Britain has a third of its army in Iraq. Some must return. Soldiers from other coalition countries will take their place: 900 Spaniards arrived this week. But compared with most war-torn states, Iraq, with 300,000 foreign troops already in the field, seems reasonably well placed to achieve security. The large number of soldiers is also the only way to ensure a purge of the Baath Party, which is a hindrance to security and governance.

On provision of basic services, there is little conflict between the United States, the UN and local Iraqis. Iraq has around 2m reasonably well-educated civil servants—a huge advantage for the food and infrastructure projects. The World Food Programme will distribute food aid. The UNDP will provide electricity. And so on. International and non-governmental organisations may be reluctant to work with military authorities for fear of being seen as a tool of occupying forces; but that should be manageable.

On all these fronts, the American-led coalition seems to have muddled through to a post-war plan for Iraq. Now it must show the plan can work. For Mr Malloch Brown is right: the biggest challenge is to establish a government that is legitimate both in Iraqi eyes, and in the world's.

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Mohammed Saeed al-Sahaf

The Scheherazade of Baghdad

Apr 10th 2003 | DOHA
From The Economist print edition

Iraq's marvellous minister of (mis)information

Get article background

IF NO-ONE will miss Saddam Hussein, his information minister will be recalled with a certain affection. Mohammed Saeed al-Sahaf's memorable, often surreal, daily press briefings were all that proved to the world that the regime was still there.

Mr Sahaf's English statements, while smooth and fluent, always seemed a little ludicrous. But it was in Arabic that his true demented genius shone through. His vocabulary was salty and, at times, archaic. Terms such as “animals”, “thugs”, “cowards” and “criminals” were sprinkled in every sentence. His most enduring legacy may be the reintroduction of the word *ulug* (roughly, “louts”) into the Arabic lexicon. The London-based Arabic daily *al Sharqal-Awsat* even devoted an article to exploring the linguistic and cultural roots of his unique vocabulary.

Mr Sahaf's apotheosis came on Monday April 7th. With American tanks occupying the Baghdad parade ground, he stood calmly a couple of hundred yards away, on the roof of the Palestine Hotel, to tell reporters that none of this was really happening. Smiling extra-wide, he said: “Don't repeat the lies of the liars.”

For many Arab viewers, he became a star. Their hope is that he will re-emerge in time, unscathed and unconvicted of war crimes, to be given his own talk-show on al-Jazeera.

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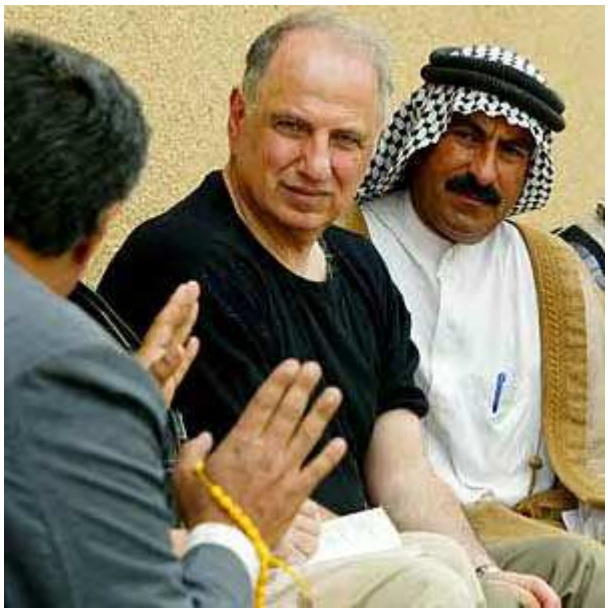
The Iraqi opposition

Waiting in the wings

Apr 10th 2003 | CAIRO
From The Economist print edition

And continuously scrapping about the best way forward

EPA



Chalabi makes friends

Get article background

SADDAM HUSSEIN'S opponents have had plenty of time, much of it spent in exile, to incubate a broad consensus about the best future for Iraq. The country should be democratic, pluralist and decentralised. So far, so good. But the vehicle for achieving these things, and the question of who should drive it, remain contentious.

The Iraqi opposition is about as divisive a bunch as could possibly be conceived. This is partly a reflection of Iraq's ethnic and religious patchwork, partly a result of the diverse spectrum of cruel experience Iraqis have suffered, and partly, Iraqis readily admit, a reflection of national character. One short-lived prime minister during the 1921-58 monarchy is said to have remarked, when asked why he declined to form a political party, “Find me three Iraqis who agree on anything, and I certainly would.”

The most divisive issue has been their attitude to American intervention. Some, such as the two main Kurdish parties and the Iraqi National Congress (INC), a would-be umbrella group for smaller parties that is headed by Ahmed Chalabi, have been enthusiasts from the start. At a recent meeting in Kurdistan these parties, joined hesitantly by the leading Shia group, formed a proto-government-in-exile consisting of a five-man ruling council and 14 subcommittees. Assorted leftists, Islamists and Arab nationalists, many of whom abhor America as a matter of principle, stayed away. The largest but least coherent opposition block, however, has chosen to sit on the fence, welcoming help to end the Baath nightmare but suspecting American motives.

Now that America has brought Mr Hussein's rule to a crashing close, all these groups are vying to assert influence. But against the backdrop of a society that is deeply insecure and traumatised by war, and in the absence of any recent experience of normal politics by ordinary Iraqis, they face an uncertain reception. Appear too close to America, and they risk the ire of many Iraqis. Take too strong a stand against the invaders, and they risk being cut out of whatever American-brokered settlement eventually

emerges.

Some have already taken advantage of ties in Washington to steal a march on rivals. Mr Chalabi, a 57-year-old mathematician and ex-banker who left Iraq at 13, was airlifted into liberated Nasiriya this week, along, it was said, with 700 followers. Another American protégé, Abdel Majid Khoei, the exiled son of a revered Shia cleric, has surfaced in Najaf with a cohort of American special forces. Mr Khoei's prestige has helped calm the battered Shia holy city, but on April 10th he was assassinated.

Mohammad Baqer Hakim, the son of another famed Najaf ayatollah and head of the Iranian-backed Supreme Council for the Islamic Revolution in Iraq (SCIRI), has yet to reappear in his home town. SCIRI had grudgingly accepted an American role in toppling Saddam, but now speaks of future resistance to American domination. Mr Hakim has vowed to return to Najaf but, in the interim, American forces have pointedly denied like-minded pro-Iranian clerics in the city a role in distributing humanitarian relief.

This kind of wary gamesmanship is likely to extend over the rest of the country, as advancing coalition troops leave administrative confusion in their wake. British forces in Basra, hoping to short-circuit local power struggles, say they have appointed a prominent sheikh—as yet unnamed—to subdue the current wave of looting. While one shadowy militia, apparently related to Mr Chalabi's INC, has been encouraged to root out Baathists in Najaf, another insurgent opposition group that took control of the town of Al Amara was reportedly ordered to step down by the CIA, under threat of American bombing. Elsewhere in the south, tribal sheikhs have pre-empted both foreign nominations and opposition newcomers by establishing their own Baath-free local councils.

But any sort of organisation on a national scale will take time and patience. The first expected step will be the holding of a congress of opposition forces, perhaps as early as next week. The Americans and British appear determined to include local leaders as well.

So who will be the Iraqi Karzai? Baathist repression has made it impossible for national figures, other than Mr Hussein and his henchmen, to emerge from within Iraq. But nearly all the exiles suffer disqualifying flaws. The top Kurdish leaders are widely respected, but will be suspected of placing ethnic above national interests. Mr Hakim claims to represent Shias, but has a narrow following even among them, is tainted by association with Iran, and rouses the fear of secularists and Sunnis. Mr Chalabi is clever, efficient and happens to be a secular-minded Shia, but is seen as too cosy with the Americans.

There are other possible figureheads. Adnan Pachachi, a 79-year-old former foreign minister, has stayed above the exile politicking and steered clear of America. His age may even prove an advantage, since his role would necessarily be transitional. Others include Laith Kubba, a bookish, liberal Shia who is popular in the State Department, and Nizar Khazraji, a gruff general who would represent something of a wild card. His sterling service as chief-of-staff during the Iran-Iraq war brings strong nationalist credentials, but his record is also shadowed with charges of complicity in the murder of Kurds.

Before all this is settled, however, one last battle must be fought, this time across the Potomac. Even at this late date, the Bush administration appears not to have made up its mind what to do: let the Iraqis decide, or shoehorn its own man in.

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Managing transitions

The lessons of experience

Apr 10th 2003
From The Economist print edition

From Bosnia, East Timor, and other fragile places

AP

How it was done in Dili

IRAQ is about to join the growing list of countries and territories that have been placed under foreign supervision until deemed able to manage on their own. In other words, it will become another modern protectorate.

In the course of the 20th century, foreign tutelage developed from crude colonialism into a system of international surveillance, which was meant to benefit local populations and, in most cases, prepare them for independence. Between the world wars, such roles were carried out by the “advanced nations” (France, Britain, Belgium, South Africa, Australia, New Zealand and Japan) under League of Nations mandates; after 1945, the newly established United Nations extended this in a new form, the trusteeship. With the independence of the last trust territory, Palau, in 1994, the system withered away.

After the second world war, Germany and Japan were placed under a different, more severe, form of tutelage. Their administrations were set up under the military aegis of the occupying allies, who relied heavily on existing administrative structures. A new legal basis was required to assume supreme authority, resting on the fact that both countries had been fully defeated and lacked a government competent to maintain order. Post-war Germany and Japan present, to some, the closest parallel to post-war Iraq.

Reinventing the wheel

Decolonisation was thought to have killed the system of international tutelage. In recent years, however, the notion of transitional administration has made a comeback. The end of the cold war, the local conflicts that followed and the growing threat of international terrorist networks have all redrawn old notions about the limits of foreign intervention. Narrow peacekeeping mandates have increasingly been replaced by “peace-building” operations, which, besides keeping order, also involve (re)building institutions and the economy, fostering democracy, punishing war criminals and promoting reconciliation. It is all much more complex and ambitious than it was.

In the past decade, temporary international administrations have been revived. Sometimes they perform their old function of smoothing the path from subjection to independence, as in Namibia and East Timor.

In some places (eastern Slavonia, northern Iraq), they provide a cooling-off period before reintegration into another country. In others (Afghanistan, Sierra Leone, Cambodia, Bosnia and Kosovo) they have helped pick up the pieces after a civil war. In each case, the same questions—who should govern, with what power, with what aims, and for how long—have to be answered afresh.

Post-colonial sensitivities mean that single states are no longer appointed as carers, and that a permanent transitional system cannot be developed. Instead, the job is done by international bodies such as the UN or, as in Bosnia, by ad hoc international coalitions. This can create new problems. In Bosnia, the high representative has no formal authority over the patchwork of international agencies involved in the transition. In addition, as in Kosovo, responsibility for military and civilian administration is split between NATO and the UN—which can leave civilian authorities powerless in the face of violence. In eastern Slavonia, Cambodia and East Timor, where a single transitional administrator was responsible for both military and civilian affairs, co-ordination was much easier.

International organisations are also often saddled with more bureaucratic and political constraints than individual governments. This can severely hamper operations. “It's like being asked to perform Olympic gymnastics and then being placed in a straitjacket,” says Sérgio Vieira de Mello, who headed the UN administration of East Timor.

How much authority should be vested in transitional administrations? Experiences have ranged from mere supervision of local authorities or warring factions (as the UN did in Cambodia) to the assumption of all legislative, executive and judicial responsibilities, as happened in Kosovo, where there was little functioning government left. The pinnacle was achieved in East Timor, where, besides having full administrative and military powers, the UN became the legal sovereign power after Indonesia withdrew and before Timor became independent.

Transitional administrations enjoying wide powers have been better equipped to fulfil their mandate than those depending on the co-operation of sometimes conflicting local parties. Under the 1995 Dayton agreement, Bosnia's three wartime regimes remained intact. The high representative was supposed only to promote compliance with the agreement, but originally did not have much authority to do so. The lack of clear military advantage also fuelled intransigence. As it became clear that local parties—none of which was happy with the Dayton outcome—were unwilling to co-operate, the high representative was eventually given more muscle, including the authority to fire local officials and to rule by decree.

The risk, however, is that powerful international carers become deaf to local voices. This happened in East Timor. According to Mr Vieira de Mello, “faced as we were with our own difficulties in the establishment of this mission, we did not, we *could* not, involve the Timorese at large as much as they were entitled.” He himself had no clear conception of how to exercise “fair governance with absolute powers”, other than through a system of “benevolent despotism”. This has led Jarat Chopra, who headed the UN Office of District Administration in East Timor, to conclude that the system mimicked monarchical power. “The unavoidable conclusion”, Mr Chopra says, “may be that the UN, despite its ability to monopolise the image of legitimacy, is ill-suited to administering territories in transition.” The question of who may be better suited, however, remains open.

When should countries under transitional administration be allowed to venture out from international protection? Strictly speaking, when the necessary jobs have been done. But for every mandate where the desired end is clear (eastern Slavonia to be given back to Croatia; East Timor to become independent), others will be murky. In Kosovo, UN Resolution 1244 provides for an interim administration for Kosovo, which is to be autonomous until its final status is decided on. But the transitional authority is left to come up with concrete interpretations of nebulous notions, such as “democratic development”. Bernard Kouchner, the first administrator in Kosovo, is said to have read the resolution twice every morning, trying to figure out what “substantial autonomy” was supposed to mean.

Bosnia highlights the problems that arise when the local population and their international tutors fail to agree about political and economic reconstruction. Before the 1998 elections, Richard Holbrooke, the Clinton administration's special envoy to the Balkans, reflected on the problem. “Suppose the election was declared free and fair [and those elected] were racists, fascists, and separatists who are publicly opposed to [peace and reintegration]? That is the dilemma.” In the event, the elections endorsed the nationalists who were considered to be spoiling the peace process. So instead of more authority being transferred to local parties, the high representative increasingly made use of his discretionary powers and, among other things, ended up sacking more than 70 elected officials over the next few years.

Although everyone agrees that international administrations are meant to be transitional, they often

seem to end too early or too late. In Bosnia, there was a clear deadline from the onset. Elections were to be held six to nine months after the Dayton agreement, and foreign troops were to pack their bags in 12 months. The Clinton administration wanted tangible results before the 1996 presidential election, but left too little time to transform Bosnia's political landscape. In the end, foreign troops stayed longer. In Kosovo, East Timor and Afghanistan the approach to elections has been more gradual, but this has sometimes angered the locals.

The United States is not renowned for peace-building. Simon Chesterman of the International Peace Academy, a think-tank based in New York, points out that, in Afghanistan, the United States had a clear military strategy of uprooting al-Qaeda and ousting the Taliban, but no idea of what should come next. In Iraq, however, things may be different.

This article draws extensively on "A New Trusteeship?: The International Administration of War-torn Territories", by Richard Caplan (Adelphi Paper 341, Oxford University Press, 2002).

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War-crimes trials

No Nuremberg

Apr 10th 2003
From The Economist print edition

America says Iraq should try its own thugs

Reuters

The (probably) missing star

Get article background

GEORGE BUSH and his officials have repeatedly asserted that Saddam Hussein and his henchmen, if they have survived, will be put on trial for war crimes and civilian atrocities. They have not said how such trials would be held, or who would sit in judgment. This week the United States made it clear that, if any of the regime's leaders are captured alive, it does not intend to turn them over to any form of international tribunal.

In the case of crimes against American soldiers in Iraq during the current conflict or the 1991 Gulf war, “We believe we have the sovereign ability and right to prosecute,” explained Pierre-Richard Prosper, the American ambassador for war-crimes issues, in a briefing at the Pentagon. Past atrocities by Mr Hussein's regime, he added, would be dealt with by an “Iraqi-led process that will bring justice for the years of abuses that have occurred.” The American government has been working with Iraqi exiles and jurists, trying to formulate a way to conduct such trials. America would help with “technical, logistical, human and financial assistance”.

Few would quibble with America holding trials for those accused of war crimes against its troops—false surrenders, for example, or the parading of American prisoners before television cameras. Mr Prosper said that, in such cases, America might resort either to military tribunals or America's federal courts, both long-established venues. But the decision to reject the idea of international tribunals for Mr Hussein and his most senior aides, and instead to hand them over to Iraqi courts, is far more controversial. Richard Dicker, a senior lawyer with Human Rights Watch, a New York-based campaigning group, says that the Iraqis should certainly be involved in this process, “but the country's justice system just doesn't have the capacity to handle a series of highly complicated trials.”

American officials have put forward a number of arguments in favour of Iraqi-led trials. Iraqi exile leaders want this, they say. And because Saddam's worst crimes were committed against his own people, Iraqis themselves should get the chance to hold him and his regime to account. Such trials will help to establish a functioning and fair legal system after years of systematic repression.

But this week's announcement may not be the end of the matter. Even Mr Prosper held out the possibility that the Iraqis themselves may seek an international tribunal. The principal problem with Iraqi-only trials is that, without some international involvement, they may have little credibility either in Iraq or in the outside world. After decades of kangaroo courts, almost anyone associated with Iraq's existing legal system is compromised. And few Iraqi expatriates can claim to be impartial, either.

If the Americans, or the Iraqis themselves, reconsider and eventually seek international involvement, the most attractive option is likely to be mixed tribunals with some Iraqi and some foreign judges. Jurists from other Arab countries might be especially helpful. Such tribunals have recently been set up, with UN backing, in Sierra Leone and East Timor. One snag may be that any UN-backed tribunal would not be able to impose the death penalty, which both the American government and Iraqi exiles support.

America's hostility to the newly established International Criminal Court means it will play no part. But the Bush administration has also rejected another model America once favoured: the ad hoc UN tribunals that are holding trials for war crimes and genocide in Rwanda and the former Yugoslavia. American officials point out that these tribunals have turned out to be expensive and slow; the cost of the Yugoslav tribunal alone is running at more than $100m a year. Their supporters argue that they have held to account leaders such as Slobodan Milosevic, Serbia's strongman, in trials that are visibly fair, and have created an invaluable historical record that may help both countries avoid repeating past atrocities. As creations of the UN Security Council, they also have undisputed legal authority—something which may yet be needed in Iraq.

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The politics of war

Who plucks the grapes of victory?

Apr 10th 2003 | WASHINGTON, DC
From The Economist print edition

Winners and losers in American politics

THE battle for Iraq seems to be drawing to an extraordinary end. The last gasps of Saddam Hussein's regime could still be poisonous. Yet in three weeks—a shorter time than the first Gulf war needed, shorter even than the one in Afghanistan did—the American-led coalition has, stunningly, achieved most of its military aims.

Inevitably, the reckoning of war is going on in Washington, DC, too. War changes domestic affairs—sometimes profoundly, sometimes less so. This war, it currently seems, is in the second category: not because it is having little effect, but because it has accelerated developments that were going on anyway.

Clearly, George Bush stands to be the biggest gainer. War in Iraq was, in one sense, of his choosing. Although the roots of conflict go back to Saddam Hussein's behaviour after the first Gulf war, the recognition that the threat had to be dealt with now was Mr Bush's—and the support of most Americans for the war partly reflects their trust in their president.

Victory should strengthen his position at home, though whether it will enable him to pass, say, his full tax cut is more doubtful. Still less does it make him a shoo-in for the 2004 election. As his father famously found, the politics of the domestic economy and of national security run on different tracks.

It is striking that Mr Bush's personal wartime popularity has not yet reached the stratospheric heights that he achieved after September 11th 2001, or that his father enjoyed after the first Gulf war. About a third of Americans resolutely opposed military action. This reflects an emerging truth about Mr Bush: he is proving a divisive president, unable to change the minds of a significant slice of his people.

Nevertheless, this is unlikely to weaken him as much as you might think. The obverse of hostility among Democrats is wild popularity with his Republican base. This should enable him, before 2004, to consolidate that support—and then reach out towards the undecided middle where elections are won and lost.

Moreover, the president cast the battle against Saddam in the context of a wider struggle against terrorism and the proliferation of weapons of mass destruction—issues that are likely to remain vital for

the foreseeable future. Of course, the 2004 election will depend also on the state of the economy (see article) and the success or otherwise of Iraq's post-war reconstruction. But, all things being equal, Mr Bush should be able to present himself as the overthrower of two vile regimes—Saddam's and the Taliban—and a forceful defender of America's national security.

For the Democrats, the war has been badly divisive. Howard Dean, a former governor of Vermont, launched an outsider's bid for the presidency on the back of anti-war feelings. Most other leading Democrats, in varying degrees, supported military action. But even the hawks, with the possible exception of Joe Lieberman, have looked mealy-mouthed because they hedged their support with so many caveats. The party has been left hoping against hope that, when the war ends, America's voters will forget about the Democrats' divisions and return to domestic concerns, where the Democrats usually do better.

In fact, for the past few weeks, the Democratic presidential hopefuls have hardly focused on the war at all, but on raising money for the 2004 election. This produced a surprise: John Edwards, a young senator from North Carolina, whose candidacy had seemed to be flagging, emerged top of the money heap, raising $7.4m; John Kerry of Massachusetts came in second.

But this activity—necessary as it is—cast an unflattering light on the party. A war was happening, yet the Democrats had little to say about national security. For decades, they have been slowly erasing public suspicion that they are “soft on foreign policy”. They risk undoing all this.

After Mr Bush, the politician who stands to benefit most from the war—in America, at least—is Tony Blair, the one man who could probably beat Mr Bush in an election. He now has more influence in the White House than any foreigner and than many members of the cabinet (which, admittedly, is not saying much).

The counterpart of Mr Blair's, and Britain's, higher standing has been the damage done to many of America's erstwhile allies. Relations with France and Germany may have been permanently damaged. The administration would like to restore its ties with Turkey and Russia, but may find it hard going.

These diplomatic challenges are likely to weigh down one of the most important figures in the administration, Colin Powell, and affect one of the capital's longest-running rivalries (far predating the Iraq war): the struggle between the State Department and the Pentagon. Mr Powell has been weakened. The architect of his country's United Nations diplomacy, he was left up the creek without a paddle by Jacques Chirac. The Pentagon has been put in charge of the first stage of post-war reconstruction in Iraq. Mr Powell's task is now to mend what fences he can.

Donald Rumsfeld, in contrast, is strengthened not only in his foreign-policy influence but also in his plan for “military transformation”—the attempt to shift America's military ideas away from heavy armoured divisions to smaller, mobile units, more reliant on air power and precisely aimed missiles. Two weeks ago, the defence secretary took a lot of flak for a war plan that, the critics said, put too much faith in this transformation. But it seems to have worked extraordinarily well.

For similar reasons, Dick Cheney should see his behind-the-scenes influence consolidated. The vice-president said from the first that the UN would prove a trap. He strongly supported Mr Rumsfeld's military alternative.

Lastly, the war has moved the neo-conservatives—neo-radicals is perhaps a better word—from the outskirts of politics to the centre. Led by Mr Rumsfeld's deputy, Paul Wolfowitz, they have been arguing for the forcible overthrow of Saddam since the early 1990s. They seem to have been right when they said the regime would quickly collapse, and its atrocities would be revealed. The big question now is whether Mr Bush will adopt their wider hope: to democratise the Middle East.

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Homeland security

Safer, but how safe?

Apr 10th 2003 | NEW YORK
From The Economist print edition

A lot of time and money is going into protecting New York. More is needed

Get article background

A REBEL against the gods, punished by Zeus, poor Atlas had to bear the burden of carrying the heavens on his shoulders. New Yorkers will sympathise. “Operation Atlas”, the Big Apple's security plan, is a heavy load, costing the cash-strapped city $13m a week. And people are wondering whether it will be wise for the city to lower its guard as the Iraq war ends.

New York is not alone. Americans have sought to make themselves safer since September 11th 2001, and the war in Iraq has intensified their efforts. Every city in the country has had to raise security standards since the war's start—sometimes at the whim of a colour-coded national threat level—and nearly every state is quibbling over just when the promised homeland-security money will turn up in its coffers.

Much of the new security is highly visible. In New York, rifle-carrying members of the National Guard patrol the subway, bomb-sniffing dogs cock an eye at the Staten Island ferry, helicopters hover overhead. Particularly vulnerable targets such as bridges, tunnels, government buildings and synagogues are peppered with checkpoints, metal detectors and more uniforms. The lorries that deliver most of the city's goods are inspected at strategic points, and there is careful searching at the city's airports. These are the obvious changes. But Operation Atlas also includes unseen anti-terror intelligence and much plain-clothes patrolling.

Even so, it is hard to ensure the safety of all the thousands who gather in streets, theatres and subways. Kathryn Wylde, president of the Partnership for New York City, a non-profit group, points out that contemporary terrorism is increasingly focused on economic targets. New York's very strengths as an economic centre and a transportation hub make it more vulnerable to attacks. Local companies have spent a lot on terrorism insurance.

Money is also becoming the centre of the political debate. The mayor's office estimates the city's emergency and counter-terrorism costs, which include equipment, intelligence and training, at more than $1 billion a year. Its police force, which before September 11th had only 23 officers working in intelligence, has now given 1,000 officers special training—a costly exercise for a city struggling to close a budget gap nearing $4 billion for the fiscal year starting on July 1st. As it stands, New York must rob Peter (welfare, services and so on) to pay Paul (the police) to protect its people.

Other cities feel the same way. Altogether America's mayors claim they spent more than $2.6 billion on additional security in the 15 months after September 11th. Costs have risen again since fighting started in Iraq. Local governments protest that it is the federal government's responsibility to protect its citizens in wartime.

This week, Congress was due to approve an $80 billion emergency-appropriation bill, the largest ad hoc spending bill in congressional history. Three-quarters of that has been earmarked for fighting the war, but around $4.25 billion will be spent on enhancing “the safety and well-being of Americans at home and abroad”, as the Office of Management and Budget puts it. Of this, $2 billion will be for state and local governments. Only about $700m, hardly an impressive sum, will go to high-threat urban areas like New York.

The Big Apple can claim to have won at least one fight. At first, the plan was to distribute the money on a state-by-state basis, which would have given Wyoming, a state under little threat of *jihad*, $9.78 a head,

and New York a pathetic $1.40. After a fierce lobbying effort, Tom Ridge, the man in charge of homeland security, has now announced that the money will be distributed according to the danger you face. Seven cities will share an extra $100m, to help with equipment and training.

More cops, fewer firemen

Dividing up these spoils is now under way. So far New York has been guaranteed about $25m—more that any other city but barely enough to cover two weeks of Operation Atlas. The final total will be a fraction of the $900m Mayor Michael Bloomberg asked for on the eve of the Iraq war.

New York is thus left in the unenviable position of being the most likely target of another terrorist attack and, simultaneously, the place least financially capable of countering the threat. There are 4,000 fewer policemen than there were two years ago, and the city may have to lose more. Ray Kelly, New York's police commissioner, has been quietly raising money from private donors.

But most of the cuts are coming from elsewhere. This week, Mr Bloomberg laid off 3,400 municipal workers and shut down eight fire companies in three boroughs. Next week he will release his executive budget—and more cuts. No wonder, as Ms Wylde puts it, “the city cannot afford another attack.”

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Augusta National Golf Club

My Lord and Master

Apr 10th 2003 | ATLANTA
From The Economist print edition

A row about women, men, clubs, money, publicity and, yes, golf

AS THIS newspaper went to press, the war was due to stop, stockmarkets to freeze and all other distractions and confusions to cease. Or so it will seem to many in the golf world. Of the sport's four "major" tournaments, the US Masters, which began on April 10th, may be the youngest, but it likes to claim that it is the best-known (even non-golfers recognise its prize green jacket) and it is set in the lushest surroundings—the Augusta National Golf Club, a course so beautiful that each hole is named after a different type of flower.

Reuters

Lonely at the top

This year, the club is in the foreground, not the background. Bizarrely—we are dealing with Georgia, after all—the controversy is to do with not race, but sex. The club has no women members. A disgrace, say feminists and the *New York Times*. None of your business, reply the members, who claim principle on their side too.

Augusta National has long been a haven for powerful men to whack 18 holes in peace. Dwight Eisenhower played there regularly. Various bigwigs, including Jack Welch, Warren Buffett and Bill Gates, are said to be members. Hopefuls cannot apply to join: you have to be invited (a problem that allegedly slowed the impatient Mr Gates's admission).

Augusta National treats the outside world firmly. CBS, which pays a reported $10m each year to broadcast the Masters, is supposed to call fans "patrons" and be nice about the course. One colourfully critical broadcaster in 1994 was banned from ever covering the tournament again.

Last June Martha Burk, the president of the National Council of Women's Organisations, wrote to William "Hootie" Johnson, the club's president, urging him to start admitting women before the Masters. Mr Johnson replied that Augusta National would not change "at the point of a bayonet". Ms Burk promptly started asking club members, sponsors, CBS and anyone else who would listen to boycott the Masters. She is also suing the city for the right to protest at the Masters' front gates.

In Ms Burk's favour is the fact that 6m American women play golf. It also seems likely that at least one rich lady would rather like to be invited to join Bill, Jack and Warren for a foursome. Critics snipe that the club admitted blacks only in 1990. John Snow quietly resigned last year after he was nominated as treasury secretary.

Yet Mr Johnson was an early supporter of civil rights in the south, and he is fighting Ms Burk hard. The club is private, he says: it will do what its members want, not the bidding of a Yankee publicity seeker.

Augusta National invites the outside world to watch its tournament, and it does not need anybody's money. He has released the sponsors from their obligations.

In Georgia, things are going his way. There is a brisk trade in “The Burk Stops Here” buttons in Augusta. Tiger Woods, who is going for an unprecedented third successive victory in the tournament, has defied a *New York Times* editorial calling on him to boycott the event. If he was a full member of the club, he'd want it to admit women, but he's not, so it's not his business. Despite Ms Burk's good tee shot, Hootie looks a couple of strokes ahead.

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Environmental science

The warmy city

Apr 10th 2003 | CHICAGO
From The Economist print edition

What happens if the Great Lakes get hotter

IN AN apparent act of defiance, Mother Nature decided to dump snow across the mid-west on April 7th—just a day before a group of 13 scientists issued an ominous prophecy about global warming and the Great Lakes. The study is backed by the Union of Concerned Scientists (UCS), which is hardly famed for analysing the problem calmly. Yet the report is relatively rare because, rather than dealing in the usual vague global generalisations, it concentrates on what might happen in a fairly small area.

The region around the Great Lakes is home to some 60m Americans and Canadians. The scientists' techniques lead them to predict that by the end of this century local temperatures will rise by 5-12°F (3-7°C) in winter and 5-20°F in summer. Cynics might note that this would mean the temperature changing more dramatically in the next 100 years than it has done in any such period over the past 20,000 years, though the scientists say that is precisely the point. Within 30 years, a summer in Illinois would feel like summer in Oklahoma today. By the end of the century, it would supposedly feel like summer in east Texas.

There are a few obvious winners and losers from such changes. The latter include not only ice fishermen and snowmobilers, but also asthma sufferers, hydropower generators and migratory birds that would find less food as forests change. The winners would include the holiday-boating industry, white-tailed deer, which would be more likely to survive mild winters, and, less attractively, gypsy moths, whose range of operations would expand if temperatures warm as much as the scientists predict they will.

For most people and animals, though, the outlook would be mixed. The oldest part of the region's economy—agriculture—would have longer growing seasons, but farmers would need to change their crops and cope with more pests. Shipping companies based in the Great Lakes would benefit from longer spells of open navigation, but lower water levels would mean that their ships had to carry lighter loads. Less winter ice could reduce the number of fish that die from oxygen depletion, but lower water levels would make life tougher for stream-dwellers like trout.

The study continues a change in the UCS's policy. Recognising that it has little chance of moving the Bush administration, it is concentrating on local politicians in the hope of getting limits set on things like urban sprawl. A report on California seems to have nudged that state into passing tough limits on car emissions. Bad luck, then, that this April 8th turned out to be the coldest in Chicago since records began 130 years ago.

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Pre-school education

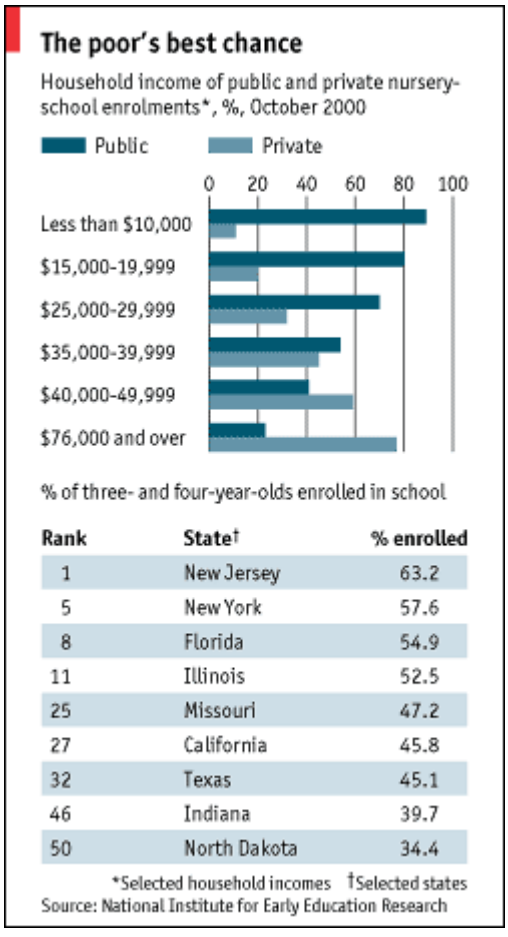
Wobbly first steps

Apr 10th 2003 | CHICAGO
From The Economist print edition

Early schooling works. New proposals may jeopardise it

THE toughest patches on Chicago's South Side offer few havens for children. Outside are flying bullets and police sirens; inside are poor teenage mothers and (occasionally) fathers. Yet here, in the shadow of a condemned public-housing block, a cluster of pastel-coloured buildings contains what many experts see as a model for early childhood education in America. The Educare Centre, run by a non-profit group called the Ounce of Prevention Fund, offers an unusual mixture of care and education to 153 black children, from six weeks to five years old, who have little other stability in their lives.

The benefits of early education are well known. It helps to determine how long children stay in high school, whether they turn to crime, and how quickly they will find a job. A study by the National Institute for Early Education Research says that every dollar invested in good, full-day, year-round pre-school (which is rare) yields a $4 return in the long run to children, their families and taxpayers. “There's a huge cost-benefit advantage just in decreased jail time,” says James Heckman, an economist at the University of Chicago.



With state budgets so tight, pre-school programmes are suddenly vulnerable. New York state, for one, is threatening to cut universal pre-school education, and programmes are threatened in Tennessee and Massachusetts, among others. Ten states cut pre-school funding in 2002. A few states hope to make progress, though: the governor of Illinois wants to set up a programme for poor children deemed at risk. He hopes it will grow, over three years, to cover 25,000 children at a cost of $90m, though a huge state budget deficit may squash his plans.

Congress is now considering reauthorisation of the Head Start programme, which provides educational, nutritional, medical and social services to poor three- and four-year-olds and their families. The Bush administration is proposing changes—improvements, it says—that will shift accountability for Head Start to the states, where the money is spent. But the public-funded pre-kindergarten programmes now available in 40-odd states vary greatly in quality and in the numbers they serve. Some early-schooling advocates worry, therefore, that a shift of Head Start to the states will undermine national standards.

They also fear that cash-strapped states will cut back other pre-school programmes further if they gain control over Head Start, or that money will no longer be earmarked for extra food and health checks. “If kids are hungry or can't see, they're never going to learn,” says Harriet Meyer, the president of the Ounce of Prevention Fund. The future of Early Head Start, which serves children from birth to three, is equally uncertain.

To check both the states and the teachers are doing their job, the White House is insisting on standardised tests for four-year-olds. Despite howls from the unions, tests have formed the bedrock of most education reforms for older children. But in the case of toddlers, some experts argue that testing children's knowledge is less useful than measuring their behaviour: one behavioural system, developed

by the Erikson Institute in Chicago, seems to work well in several states.

Head Start currently provides about $7,000 for each child, and Early Head Start provides $8,000-10,000. The Educare Centre spends an average of $13,000 for each child by combining Head Start and Early Head Start cash with state money for other programmes. Compared with the hodge-podge of pre-school activities that millions of American parents cobble together, the Educare Centre is admirably integrated. By pooling money from different sources, it can hire plenty of educated teachers and pay them well; it takes children for a full day, all year round, providing a safe and cheerful place in which to play and learn.

A good start

Why are there not more such places? The reasons include turf squabbles and jealousy among other child-care groups, unwillingness to believe that existing programmes need improving, bureaucratic hassles over families' eligibility for funding, and lack of money. Research also shows that many Americans think pre-school children should be at home with their mothers. But that is a vanished age. Nowadays, when 73% of American women with children work, including 61% who have children under three, efficient and affordable child care is essential for employee-productivity as well as for the good of the children themselves.

Adele Simmons, of Metropolis 2020 in Chicago, says it is time to invest in children as part of the nation's social infrastructure. “The increase in funding for roads and bridges has been far greater than the increase in funding for kids,” she says. “Kids who enter school not ready to learn never catch up.”

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Lexington

The left-out coast

Apr 10th 2003
From The Economist print edition

A state that used to be a trendsetter is stuck in a time-warp

CALIFORNIA has always prided itself on getting to the future first—on pioneering the suburban affluence of the 1950s, the tax-cutting revolution of the 1970s and the high-tech boom of the 1990s. So consider a horrible possibility: that now it is the “new America” in the west that just doesn't “get it” (in the infuriating phrase of the 1990s' cyber-gurus) and the “old America” in the east that is grappling with the future.

Ever since September 11th Californians have been out of the American loop, flummoxed by the war on terrorism and locked into a pre-September 11th mindset. Far from pioneering the future, the Californian upper crust seems stuck in the 1990s, maybe even the 1960s. And now the war is widening the gap.

September 11th is usually credited with bringing America together. But it also opened up a psychological gulf between the two coasts. People on the east coast were inevitably more shocked and shaped by that terrible day than people who witnessed it on television from a distance of several thousand miles. That psychological gap has grown bigger with time.

New Yorkers and Washingtonians live, day in and day out, with the knowledge that their cities are the prime targets of another terrorist attack. A succession of grim events has reinforced this sense of vulnerability: the mysterious anthrax attacks; the crashing of an airliner in Queens; the Washington sniper; and the recent terror alert, which sent easterners rushing to buy duct tape and plastic sheeting but left Californians bemused. California's worries are very much pre-September 11th worries: the economy, schools and the budget deficit. Fewer than one in 50 Californians names homeland security as his main concern.

The war on terrorism has also shifted the national spotlight back to the east coast. In the 1990s it was hard to take your eyes off California. Geeks and their gadgets became a national fetish. Young journalists flocked to San Francisco to work for *Red Herring* and the *Industry Standard*. Publishers handed out million-dollar advances for the latest Silicon saga. But who gives a fig about Moore's law these days?

Meanwhile, the war on terrorism has shifted the national spotlight on to two subjects that California flunks badly—politics and geo-strategy. Of course, the golden state has islands of expertise, such as Rand, a Santa Monica think-tank which arguably invented the study of terrorism, and the Hoover Institution, a conservative power-house. But it also has two big disadvantages.

The first is that California, not least its journalism, is stuffed full of celebrities whose access to the airwaves is inversely related to their knowledge. Remember Barbra Streisand's press release suggesting that Saddam Hussein is president of Iran? And Sean Penn's assurances, based on a three-day visit, that Iraq is “completely free of weapons of mass destruction”?

The second is the implosion of the local Republican Party. Given the neanderthal nature of many of that organisation's members, it is tempting to say good riddance. But a one-party state seldom makes for healthy political debate. Worse, the Democratic Party is controlled by its most extreme elements. At a recent state party convention delegates loudly booed Joe Lieberman, despite the fact that this intelligent moderate was addressing them on a pre-recorded videotape.

A good deal of Californian political discussion is locked in the 1960s. Listen to Pacifica Radio, read some of the *Los Angeles Times* columnists, or watch yet another degree-less actor denouncing the “war for oil”, and you are immediately transported back to that heady decade—to a time when American power was always being put to malign ends, when the American armed forces were always bogged down in an unwinnable war, and when the CIA and the FBI were always up to no good. This mindset is not unique to California, of course; it is to be found in most universities in the land. But in the rest of the country the class of '68 has to contend with a cacophony of other voices. In the nation's biggest state it reigns almost unchallenged.

California sleepin'

Will California recover, or is it bound to fade like some ageing screen siren, while younger floozies (Texas? Florida?) grab the limelight? One depressing thing about the state's current marginalisation is that it actually began before September 11th. The bloom was already off the Silicon rose even before the terrorist attacks. Moore's law had become snore's law, computers just another commodity.

Politically, California has been out of the loop ever since the Clintons moved out of the White House. Californians were never going to warm to George Bush and his southern-fried brand of Republicanism. This is a state where Bill Clinton (who won the state twice by a 13-point margin) is still a hero and where even 54% of registered Republicans oppose restrictions on abortion rights. The energy crisis that followed hot on the heels of the 2000 election reinforced Mr Bush's image as a devil. Californians are less inclined than almost anyone else in the country to give the president the benefit of the doubt on anything from tax cuts to homeland security.

But the odds are surely on another comeback. Silicon Valley will contrive some new revolution that seizes the national imagination. This year's Oscars had the smallest audience for 30 years, but Hollywood still creates the images that define America in the eyes of the world. Above all, there are the immigrants: California still pioneers America's demographic future.

And, besides, there are compensations in being out of the loop. Do you really want to be on the cutting edge of history at a moment when that cutting edge is all about terror and destruction? Sit in a café in West Hollywood, bathed in sun and surrounded by suspiciously beautiful people, and you can see the point of taking the occasional holiday from history.

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Repression in Cuba

Disappearing into a Caribbean gulag

Apr 10th 2003 | HAVANA
From The Economist print edition

AP

Fidel Castro's regime feels threatened—by mounting domestic opposition as well as George Bush

Get article background

A FEW of them, such as Raúl Rivero, a poet and writer, and Martha Beatriz Roque, an economist, are well-known in human-rights circles abroad. But what is striking about the vast majority of the dissidents hauled before Cuba's summary courts over the past ten days is their seeming ordinariness. Of the 78 assorted democrats, independent journalists and human-rights campaigners rounded up by the security police last month, 49 live in the obscurity of the provinces.

That, of course, may be precisely why Fidel Castro's Communist government sees them as threatening. In just three weeks, Mr Castro has all but snuffed out the weak flame of opposition on the island. The detainees were hauled before courts surrounded by police and packed with government supporters, and from which foreign diplomats and journalists were barred. Accused of conspiring with American diplomats against Mr Castro's government and revolution, they were swiftly dispatched for jail terms averaging around 20 years. Since many of the dissidents are aged between 50 and 60, in practical terms they are being put away for life.

This sudden crackdown is a harsh reminder to Cubans that as long as Mr Castro is alive, any dreams of regime change will remain just that. But it also marks a new period in his 43-year rule. Ever since European communism's demise left his country isolated and in shambles, he has allowed token dissent as he searched for improved political and economic ties with the capitalist world. So what has prompted such heavy repression?

On the face of things, Cuba's small, isolated and harassed opposition movement is no match for a government that controls all the levers of power and enjoys a media monopoly. But Mr Castro clearly takes it seriously. At the trials, the government produced as witnesses eight security agents who had infiltrated opposition groups. That will sow suspicion among dissidents who remain free.

The best-known of these is Oswaldo Payá, who last year won the European Union's Sakharov human-

rights prize. He heads the Varela Project, a petition drive seeking a referendum on democratic reform. At least 46 supporters of his Christian Liberation movement were among those arrested. As he stood outside Havana's main court this week, Mr Payá said that Mr Castro's aim was to shatter an opposition movement that had gained strength, unity and legitimacy. He promised to continue with his petition drive. With many of his grassroots organisers taken out, that may be hard.

According to senior Cuban officials, the crackdown was prompted not by the growth of domestic opposition but by the stance of President George Bush's administration. They say that Cuba's toleration of token dissent was a response to the Clinton administration: it was perceived to be unfriendly to Mr Castro's exiled foes in Miami, and saw dissidents as a means to rapprochement and peaceful change. By contrast, they argue, Mr Bush's government represents the most dangerous threat they have faced since the 1959 revolution. They say that over 30 Cuban-Americans, many of them Mr Castro's bitter foes who favour military action to overthrow him, now have government jobs in Washington.

In Havana, the United States is seen as fomenting internal opposition to create the conditions for intervention. A week before the crackdown, Mr Castro denounced James Cason, America's top diplomat in Cuba, as a “provocateur”. Mr Cason had met dissidents across the country, publicly backing them while attacking the regime, and allowed them to use the United States' Interests Section and his own residence for their meetings.

According to Mr Cason, the Bush administration will now consider further hardening its policy towards Cuba. The United States' Congress is unlikely to relax any further America's trade embargo against Cuba. Protests have come, too, from many of Cuba's main trading partners. Canada has protested at the severity of the sentences. Sweden said that Cuba has jeopardised its chances of joining the European Union's Cotonou trade pact.

But such protests are unlikely to be heeded. Cuba-watchers say that, in weighing important decisions, Mr Castro's first consideration is his political control of the country, and his second concern is his traditional foes in Washington and Miami. The reactions of his friends and economic partners in other parts of the world come a distant third.

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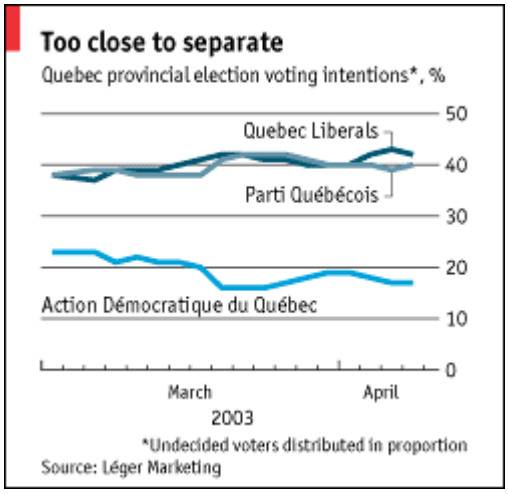
Quebec's election

A new nationalism

Apr 10th 2003 | MONTREAL
From The Economist print edition

A tight election in Canada's most complicated province



SIX MONTHS ago, political pundits were preparing obituaries for the Parti Québécois (PQ) and even for its raison d'être, the peaceful democratic secession of Quebec from Canada. But as campaigning for the provincial election on April 14th was drawing to a close, all of that looked a little premature. The Quebec Liberals had secured a small, but constant, lead in the opinion polls. But many of the pundits were betting that the PQ would sneak back for a third successive term, becoming the first party for half a century to do so. If so, that would not be the result of a surge in support for secession. Rather, it would be a consequence of Canada's first-past-the-post electoral system—and of a plateful of bread-and-butter issues.

At the last election, in 1998, the Liberals, then as now lead by Jean Charest, won 25,000 more votes than the PQ. But too many of their votes were piled up in a clutch of constituencies in the Montreal area, and too few among the French-speaking voters scattered across the rest of the province, who determine elections. The result: the PQ finished up with 76 seats in the 125-member legislature while the Liberals took only 48. The polls suggest a similar outcome this time.

Two things could upset that. The first is the campaigning of Mr Charest, who dominated the only television debate and has argued strongly for improving health care. By contrast, the PQ's Bernard Landry is a shrewd but often testy warhorse of the secessionist movement. The second factor is the performance of Action Démocratique du Québec, a young conservative party which at first threatened to make the election a three-way race. Voters have cooled to it. But if the ADQ siphons off enough French-speakers' votes from the PQ, the Liberals could yet squeeze through.

However, the main reason the PQ looks likely to be re-elected is Quebec's thriving economy. That has allowed Mr Landry, who was finance minister from 1996 until he took over as premier in 2001, to present himself as a cautious and competent administrator. And he has run a clever campaign. He has deflected attention from Mr Charest's promises of tax cuts and smaller government. Out have gone past references to the Canadian flag as a “red rag”. Instead, Mr Landry has been reborn as a wise and smiling grandfather, who is promising a four-day week for hard-pressed young parents while himself unashamedly taking an afternoon nap in what has been called the Camomile Campaign.

And secession? The polls show that a solid 40% continue to support independence in principle. But far fewer want another divisive referendum on the issue in the near future. Mr Landry has nevertheless promised one if there is “the least chance of winning”. But this has not helped Mr Charest, who in 1998 gave up the leadership of the federal Conservatives in Ottawa to lead the Quebec Liberals. He has been unable to shake the perception that he is a Canadian before he is a Quebecker, and that he is *à quatre pattes* (on all fours) before the federal government, in the words of a PQ stalwart.

Over the past few years, the PQ government has wrung from Ottawa more local control over matters such as employment policy and health care. Paradoxically, many Quebeckers seem to see a secessionist government as the way to get the best deal within Canada. Another Liberal defeat would thus almost certainly spell the end of Mr Charest's leadership of his party. And it would show that Quebec nationalism, though of a restrained and moderate variety, is still alive.

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About sponsorship

SARS in Canada

China syndrome

Apr 10th 2003
From The Economist print edition

Canada's largest city hopes that quarantine will work

IN THE past month, more than 230 people in Canada may have contracted Severe Acute Respiratory Syndrome (SARS), and ten have died from the pneumonia-like disease. That makes Canada's the worst outbreak of the disease anywhere outside Asia—and it has thrown the health services in Toronto, where most of the cases have occurred, into turmoil.

The outbreak began when a Toronto resident returned home from Hong Kong carrying the infection. It quickly spread to her family, to the hospital where they were treated, and then to another. Health workers were themselves infected. Michael Silverman, an infectious-disease specialist in the city, says that many of his colleagues have been in quarantine, unable to work, after attending a meeting where a doctor who later developed the disease was present.

The two affected hospitals were temporarily closed, and the rest placed on high alert. All non-essential medical services, such as hip-replacement surgery and even HIV clinics, have been suspended. Toll-free helplines, websites and special SARS screening centres have been set up to deal with public anxiety about coughs and sneezes.

Face masks are much in demand in Toronto. Quarantine has become a city ritual. Thousands of people who visited the two affected hospitals, or had contact with a SARS victim when not wearing a mask, have been staying at home, in “voluntary isolation”, for ten days.

Health officials hope that all of this has brought the outbreak under control. So far, all those infected had either visited other affected countries, or had contact with a known SARS patient or one of the hospitals involved. Wider transmission of the disease may have been avoided. Even so, some health experts fear a further wave of victims, if it turns out that the disease can be spread by other means than close contact.

SARS has already damaged Toronto's economy. Fewer tourists are visible in the city's hotels and restaurants. Spain and Australia have issued warnings against travel to Toronto. A big American medical conference was to be held there last week; it was cancelled, depriving the city of tens of thousands of visitors. Chinese-owned shops and restaurants are empty, and Chinese-Canadians complain that they are facing discrimination. It is true that the city's Chinese residents retain close links with China and Hong Kong. But many of those infected are not of Chinese origin, having picked up the bug in hospitals.

In the United States, only 149 cases and no deaths have been recorded. So why has Toronto been hit so hard? Perhaps because it was unlucky enough to receive the first SARS case in North America. The disease spread fast before being detected, in a city caught unawares. Canadians must hope that quarantine does its job.

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About sponsorship

Pakistan

The wild frontier

Apr 10th 2003 | PESHAWAR
From The Economist print edition

EPA

Muslim fundamentalists become acquainted with the realities of exercising power

Get article background

THE usually bustling bazaars of Peshawar's old city were eerily quiet on April 8th. Most shops were shut, in observance of a national traders' strike called in protest at the war in Iraq. Shopkeepers hoisted black flags and joined rallies. This was the latest of many demonstrations since the war began. On Fridays, after prayers, groups of white-robed, bearded men, disgorged from the mosques, take to the streets to call for death to George Bush. On March 30th, an estimated 200,000 people marched in one of Pakistan's biggest protests ever. Like so much of the Muslim world, the country's North-West Frontier Province is angry. But here, the angry brigade is in government.

In the general election last October, called to give a civilian gloss to the military regime of the president, General Pervez Musharraf, the Muttahida Majlis-i-Amal (MMA), an alliance of six Islamist parties, won 60 out of the 342 seats in the National Assembly. And in one of the four provinces, North-West Frontier, it pulled off a real surprise, winning control of the provincial government. In neighbouring Baluchistan, which also borders on Afghanistan, it did almost as well, and entered government in coalition. A shudder shook those who worry that Pakistan has the potential to become the next fundamentalist state. Their fears have been fuelled by an increase in attacks on American soldiers and their Afghan allies pursuing the remnants of the Taliban and al-Qaeda in lawless border areas.

Some of the measures taken or threatened by the new provincial government have added to the concerns. The announcement of a ministry for “the promotion of virtue and prevention of vice” is reminiscent, for instance, of the zealotry of the Taliban. Police-sponsored vigilantes have lit bonfires of videos and harassed musicians (some, denied a respectable living, have reportedly been forced to turn to prostitution). There have been threats to ban cable television. More women have taken to wearing the veil. Planning has started for the implementation of Islamic law (*sharia*) in the province, involving the segregation of women in health and education, and the compulsory closure of businesses to allow time for prayer.

But extremist zeal has in practice been tempered by gradualist caution. Mohammad Adeel, a former provincial finance minister, now in opposition, scoffs at the new government—not for its Islamist agenda, but for its failure to do anything much at all: nothing, he says, except tearing down a hoarding with a

picture of a woman advertising Lux soap, and banning the tape-recorders on which bus-drivers play “unsuitable” music.

Similarly, although some non-governmental organisations (seen by the Islamists as an American fifth column) are nervous, Maryam Biby, of “Sisters' Home”, a charity for women, is, so far, reassured. She says the MMA, still grappling with the novel experience of government, has softened its hardline, segregationist stance towards women. It wants their votes.

There are other possible reasons for the MMA's relative restraint. One is the limited scope of provincial authority. Even the introduction of *sharia* is complicated by the federal legal system. The National Assembly can overturn laws passed by the provincial assemblies.

The fragmented nature of the alliance itself also impedes radical action. Its six parties are riven by doctrinal disputes and personal rivalries. That they managed to forge an electoral alliance in the first place was so unprecedented and astonishing that it is attributed by many cynics not to Islamic unity but to military manoeuvring: the army and intelligence services allegedly fostered the alliance to weaken other opposition parties, and so ensure that the “king's party” loyal to General Musharraf led the government.

More concretely, the MMA's victory in North-West Frontier Province said less about support for fundamentalist Islam than it did about anti-American feeling. People in the province talk routinely about the many American “atrocities” and “massacres” in the war against the Taliban and al-Qaeda in Afghanistan. Ethnic Pushtun kinship and a porous border make many see it as a war against them, too. The MMA succeeded in harnessing popular anger with America, and with General Musharraf's government for its ditching of the Taliban and help for the war effort (which last week earned the government its latest reward—the writing-off of $1 billion-worth of American debt).

But anger at the government's pragmatic accommodation with the United States need not imply widespread support for some of the MMA's more restrictive social and cultural policies. People care more about basic economic issues, especially jobs, areas over which the MMA has very little control.

There is also another explanation for the MMA's moderation: it believes time is on its side. Muhammad Iqbal Khalil, of the Jamaat-e-Islami, a moderate MMA component, says that the Taliban's revolutionary extremism serves as a negative example, but that nonetheless a “slow Islamisation” is under way in the province.

Many believe that if Pakistan's general election were held again now, the MMA would fare even better, thanks to the effects of the war in Iraq, which, presented as an assault on Islam itself, has given a new lease of life to its anti-American campaign. There is a real danger in this strategy, however: keeping the fires of religiously-inspired anger burning may make them hard to douse. That, as the International Crisis Group, a lobbying think-tank, notes in a recent report, runs the risk that Pakistan finds itself “isolated regionally and a target, as opposed to a partner”, in America's war on terror. That risk is heightened by the enthusiasm of many Pakistani Islamists for seeking “martyrdom” in an insurgency in Indian-administered Kashmir—a proxy war that India demands America and the world should now be ready to recognise as nothing more than a prolonged campaign of terrorism.

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About sponsorship

Uzbekistan

Death of the salesmen

Apr 10th 2003 | TASHKENT AND FERGANA
From The Economist print edition

New rules are strangling traders

JURAT, a young Uzbek entrepreneur, imports clothes from Turkey and sells them in one of Tashkent's bazaars. Over the past few months, his business—like those of many of his fellow traders—has been hit by a series of government measures. Since last summer, “shuttle” traders, who import cheap consumer goods from neighbouring countries, have had to stomach sharply increased import duties; the closure of the Hippodrome, Tashkent's main market, for three months; a panoply of new regulations on licensing, certification and inspection; restrictions on wholesaleing; and, starting this month, a requirement for Uzbek-language labels on all imported goods.

The authorities say the new rules are meant to raise the quality of imports, promote local industry and stamp out smuggling. Critics say they are actually an attempt to bring the black-market exchange rate closer to the artificial official one by cracking down the source of demand for dollars. Others suspect that senior officials want to centralise and control trading activities.

Whatever the reason, the result has been to strangle small-scale trade, which, in a country where most people go to markets to do their shopping, constitutes the backbone of the distribution system. Traders complain about arbitrary confiscations and harassment by tax and police officers. Prices have gone up, and the range of goods available down. Many traders have gone underground, or bust. Jurat used to bring back 50-100kg of clothes from each trip to Turkey, and pay the duty in full. Today, he brings in only 15kg legally, and smuggles in another 25kg. He, at least, has managed to avoid having his goods confiscated. Azoda Kadirova has not been so lucky. Last October, the police confiscated her stock and closed her shop for two months. Now facing prosecution, she has given up on the business and wants to leave the country.

The chilling effects can be seen far down the distribution chain. In Fergana, a few hundred kilometres from Tashkent, a shoe-seller points to empty spaces in the bazaar. She used to buy her goods from shuttle traders at the Hippodrome. As wholesale trade is now restricted to firms with a minimum capital of $25,000 (a fortune by Uzbek standards) and, she says, there is no competitive local supplier, she has to travel to Kazakhstan to stock up. Once a nurse earning a meagre $15 a month, she had gone into business hoping for a better life. Today she is barely surviving.

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Afghanistan

Taliban resurgent

Apr 10th 2003 | KABUL
From The Economist print edition

Efforts to destabilise the government

Get article background

AS THE war in Iraq seems to be ending, the war in Afghanistan seems to be horribly alive, particularly in the south of the country. Perhaps in response to increased American activity in a region where foreign intervention has traditionally been unwelcome, there have been worrying signs of a Taliban resurgence.

At the end of March, American forces concluded Valiant Strike, the third large operation they have run this year against the remnants of al-Qaeda and Taliban rebels in southern Afghanistan. Pakistani ID cards are said to have been found on the bodies of some of those killed in the strike, indicating that the rebels may be getting support from Pakistan.

Earlier, Mullah Omar, the former leader of the Taliban regime, had called on Afghans to “fight like the Iraqis to rid your country of foreign oppressors”. Two American special-forces soldiers and a Red Cross man were shot dead at the end of March. The soldiers were travelling by vehicle in Helmand, a major poppy-growing area. They were ambushed by bands of men riding motorbikes, possibly members of the Taliban or allies of Gulbuddin Hikmatyar, a warlord opposed to the Afghan government in Kabul.

The Red Cross man, Ricardo Munguia, was the first aid-worker to be murdered in Afghanistan in five years. On March 27th he was travelling with Afghan colleagues near Tirin Kot in Uruzghan, near Kandahar, when they were stopped by a group of gunmen. One of the gunmen made a call by satellite phone to “a commander”. The commander said the Red Cross man should be killed, rejecting a plea for mercy by the gunman who said that the Red Cross had once saved his life. The Afghans with Mr Munguia were spared but told not to work with foreign agencies again. The next day a statement was made in Pakistan by people purporting to be from the Taliban. Taking responsibility for the killing, they said this was the start of a campaign to destabilise the government.

In recent weeks many agencies and NGOs have pulled out of Kandahar citing the growing security threat. One NGO said that its staff now travel by public transport rather than in private vehicles, nine of which have been hijacked in the past two months. One aid-worker said that security in Afghanistan is now worse than it has been for ten years. When the Taliban ruled Afghanistan, they could provide security throughout nearly all of the country. The authority of the government of President Hamid Karzai is much more limited.

The assassination this week of Mullah Jailani, who sheltered Mr Karzai during the conflict to oust the Taliban regime, may have been an overt message to the Karzai government of growing dissatisfaction felt by many Afghans. Mr Karzai is increasingly seen by many as a *shah shujah*, or puppet, of the Americans.

One way in which the American-led coalition is seeking to extend the remit of the government is through the establishment of what are known as provincial reconstruction teams. Run by America's Defence Department, they are made up of coalition soldiers undertaking civil and humanitarian work.

Aid-workers are worried: they believe that coalition soldiers should be limited to providing the safety in which humanitarian work can be conducted, rather than the soldiers trying to conduct it themselves. The teams, they fear, blur the distinction between combatants and aid-workers in the minds of Afghans, so putting aid-workers and other non-combatants at greater risk.

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Aceh

A ceasefire without monitors

Apr 10th 2003
From The Economist print edition

The peace deal in this turbulent Indonesian province is in trouble

THE four-month-old ceasefire in Aceh is beginning to fray—and there is no one to stitch it back together. In the past week, some 15 people have died in fighting between Indonesian forces and the separatist rebels of the Free Aceh Movement (known by its Indonesian acronym, GAM). Under the terms of the ceasefire signed last December, monitors from both sides accompanied by go-betweens from the Henry Dunant Centre (HDC), the Swiss organisation that brokered the deal, should now investigate the killings and sanction the culprits.

But over the past month, demonstrators have ransacked three of the monitors' field offices, claiming that the ceasefire is not working. So on April 8th, the HDC announced that it was pulling all the monitors back to Banda Aceh, the provincial capital. Officials of the HDC admit that many people in Aceh are frustrated at the ceasefire's slow progress. Indonesian soldiers and GAM fighters continue to extort money from locals. Promised aid projects have been slow to materialise. Negotiations about the province's political future have not yet begun, and it is hard to see how GAM's demand for independence can be squared with the government's determination to preserve Indonesia intact. Nonetheless, the conflict, which has dragged on for decades and claimed over 10,000 lives, has subsided dramatically. Before the ceasefire, it claimed some 320 lives every month; after the signing, the rate had declined to about 15 a month until the recent upsurge. For that reason alone, insists Steve Daly, a spokesman for the HDC, 99.9% of Acehnese support the peace effort.

So what accounts for the demonstrations? The near-universal assumption is that disgruntled elements in the army put the participants up to it. At any rate, the protesters arrived in trucks, shouted suspiciously similar slogans at opposite ends of the province and made identical demands: that the monitors should stop protecting GAM or leave.

If the peace effort continues, the two sides will soon have to make their first material concessions: GAM is supposed to be depositing its weapons in secret caches for the HDC to inspect, while the Indonesian army is due to pull its forces back to barracks. That would imperil the lucrative smuggling, drug-running and extortion that both sides are thought to indulge in. Reason enough, perhaps, to organise riots.

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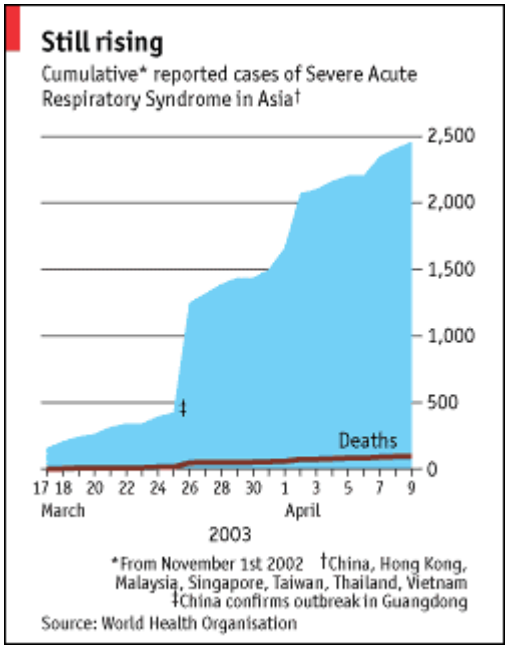
China

Please lie less

Apr 10th 2003 | BEIJING
From The Economist print edition

China's response to the SARS epidemic is being hobbled by a culture of secrecy



PREVENTING and treating atypical pneumonia, Beijing's Communist Party chief, Liu Qi, told medical experts this week, are "important political tasks". In party-speak, this means the leadership is more worried than it has previously liked to admit about the epidemic of a pneumonia-type ailment known as Severe Acute Respiratory Syndrome, or SARS. But China's decision to be a bit more open about the problem is doing little to contain the damage.

China's response to the SARS epidemic, which has affected at least 2,400 people in Asia and caused 96 deaths (over half of them in mainland China), has been hampered by a secretive political system that is poorly equipped to handle crises and by a health-care system ill prepared to monitor the spread of such a disease.

Late last month, after weeks of trying to cover up the epidemic, China changed tack. It agreed at last to let the World Health Organisation visit the worst affected area, Guangdong province. It began providing daily updates on case numbers and admitted that the problem in China was indeed related to the SARS epidemic elsewhere. More than two weeks after reporting its first cases, a start has been made on disinfecting public buildings in Beijing, where local medical workers say there are many more cases than the 22 officially reported.

This new approach was doubtless prompted by growing international alarm about China's cover-up, which has hampered efforts by scientists to understand how the disease started and how it spreads. Even the World Health Organisation (WHO), which has tried to secure China's co-operation in dealing with the epidemic by avoiding public criticism of its behaviour, joined the chorus of criticism on Sunday. "It would have been much better if the Chinese government had been more open in the early stages," said the WHO's director-general, Gro Harlem Brundtland.

But China's strategy for dealing with SARS is still disturbingly flawed. Though quicker to report new cases, its statistics remain partial. WHO officials say they now have a much better understanding of the situation in Guangdong and believe the epidemic is abating there. But they are less certain that the rest of the country is taking adequate steps to monitor and control the disease or that the authorities are reporting all known cases.

While trying to appear more forthcoming about the disease's spread, China has also stepped up efforts to persuade the public that SARS is nothing to worry about. Officials have been encouraging people to travel during the forthcoming May Day holiday week (China is eager to encourage holiday spending as a way of boosting the economy). But it is not advising tourists to avoid travelling if they have symptoms of SARS. Nor is it advising transport operators to screen passengers.

The crisis is a test of the abilities of China's new leaders, including the president and party chief, Hu Jintao, and the prime minister, Wen Jiabao, who took office between November and March. So far the signs are not encouraging. The first reported cabinet meeting called by Mr Wen to discuss the problem did not take place until April 2nd, two months after the disease took off in Guangdong.

And in spite of a much-trumpeted appeal by the new Politburo in late March for news reporting to be “close to reality, close to the masses and close to life”, the authorities have kept a tight grip on coverage of SARS by the media. A couple of newspapers have bravely bristled at this, including the *China Economic Times*, which said on Wednesday that the media's silence on the issue had damaged the country's image. The people's “right to know”, it said, had become an urgent matter. Mr Hu and Mr Wen, it appears, do not agree.

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Myanmar

Investing in a misruled land

Apr 10th 2003 | MIGYAUNGLAUNG
From The Economist print edition

How much help is Western disinvestment to the people of Myanmar?

AP

If we don't, another firm will

Get article background

THE villagers of Migyaunglaung are lucky by the standards of military-ruled Myanmar. In 1997, six years after the army forcibly evicted them from their homes on the banks of the Dawei river, it suddenly relented and allowed them to return. They are in no doubt about what accounted for this unprecedented clemency: the intervention of TotalFinaElf, a French energy conglomerate which exports gas to Thailand through a nearby pipeline. Others in the area describe how Total's presence has spared them from forced labour, extortion and harassment at the hands of the army. On top of this, Total has set up a lavish aid scheme that has spent $6m on all manner of projects from pig farms to fire stations. So why do human-rights campaigners vilify the company for its investment in Myanmar?

In part, the complaints stem from events during the planning and construction of the pipeline in the mid-1990s. Villagers from the area have sued the three shareholders in the pipeline (Total, the government of Myanmar and Unocal, an American oil firm) in three different countries for complicity in the atrocities the army committed at the time. Total and Unocal, while denying any responsibility for any unpleasant incidents, contend that their presence has actually helped to improve the life of the local people and modify the government's behaviour. Their critics, on the other hand, say they are simply propping up the despots and should withdraw from the country.

The suggestion is hardly far-fetched. Premier Oil, a British company that owns a share in another nearby pipeline, is now in the process of selling its stake after a prolonged disinvestment campaign by activist shareholders. Last month, a holding group for several retailers called May became the 40th American company to succumb to a consumer boycott and ban goods made in Myanmar from its shelves.

But many companies, including some that have given in to the boycotters, argue that such withdrawals do more harm than good. An executive from a European clothing company that recently pulled out of Myanmar describes how the government took over its factory. Now, he assumes, the plant is operating without the safeguards for the workers and the environment that his firm had insisted on. Likewise, Olivier de Langavant, Total's country manager in Myanmar, says that another oil firm would step into the breach if Total pulled out—just as Malaysia's Petronas is happily replacing Premier. At the moment, he says, the government is not earning much money from the pipeline anyway, since it is still paying off its share of the construction costs. What's more, he argues, economic isolation, even if it could be achieved, would not really bother Myanmar's generals; after all, they themselves sealed the country off from the

world for 30 years up to 1988.

The proponents of boycotts and sanctions, who include Aung San Suu Kyi and her political party, claim that the regime does worry about its image. They point to its recent courtship of groups such as Amnesty International and the International Labour Organisation. They also claim that the government is feeling the financial pressure: clothing exports to the United States fell by 27% in 2002, for example, cutting into its hard-currency earnings. But such setbacks pale next to the damage the generals do to Myanmar's economy all by themselves. They tend to change laws, cancel contracts and close borders without heed to the economic consequences. They are currently sitting back and watching a damaging run on the banks unfold.

There is no international consensus about how best to influence the regime. America, which at present imposes mild sanctions on trade and investment in Myanmar, recently threatened to strengthen them unless the government took more vigorous steps to restore democracy. But Sergio Pinheiro, who monitors the human-rights situation in Myanmar for the UN, says that the generals respond better to engagement than to ostracism. There is, of course, a third possibility: that the behaviour of outsiders, friendly or hostile, has no effect on the regime at all.

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Israel and the Palestinians

"After you." "No, after you"

Apr 10th 2003 | GAZA AND JERUSALEM
From The Economist print edition

Each side wants the other to make the first concession for peace

Get article background

ONE missile missed, according to witnesses, but two struck their intended target. On April 8th, an Israeli fighter jet swooped over a densely-peopled part of Gaza City, and a car containing Sa'ed al-Arabeed, a senior Hamas leader, and one of his deputies, was blown apart. Five other Palestinians were killed in the attack, including two children, and 40 wounded. It was Israel's first assassination since the Iraqi war started, and it highlighted the obstacles facing would-be peacemakers.

A few hours earlier, President George Bush had publicly reaffirmed his commitment to implementing the "road map towards peace", a plan drawn up by the "Quartet" (America, the European Union, the UN and Russia), aimed at ending the Israeli-Palestinian conflict within two years. Both the Israeli government and the Palestinian Authority (PA) say they want the as-yet-unpublished plan to succeed, but they do not agree on what it should say.

The PA wants Israel to withdraw its troops from Palestinian areas, freeze the building of new Jewish settlements on Palestinian land, and end its policy of assassinating militants such as Mr al-Arabeed. PA officials argue that Israel should do these things "in parallel" with Palestinian action to curb violence and reforms of the way the PA governs the areas it is nominally in charge of.

The Israeli government, however, insists on a different sequence. First, says the foreign minister, Silvan Shalom, the Palestinian side must curb terrorism and stop all incitement. Only after a long period of quiet would Israel's obligations kick in, including the settlement freeze.

The PA's prime minister-designate, Mahmoud Abbas (also known as Abu Mazen), says he wants to abandon the "armed *intifada*" in favour of diplomacy, and to reform the PA. But he is having trouble convincing his people. Appointed last month, he was supposed to have announced the composition of his new government this week, but that is likely to be delayed. Since Mr Bush has predicated publication of the road map on the formation of a new Palestinian government, this is a pity.

Mr Abbas argues that the road map represents the Palestinians' only chance to rally international pressure to expel the Israeli army from the reoccupied cities of the West Bank. Without an Israeli withdrawal and a Palestinian ceasefire, he says, the PA will not be able to govern.

Most Palestinian factions, however, refuse to join any new government until elections are held. Mr Abbas also faces obstruction from within his own Fatah movement. Some younger leaders are demanding a nearly complete change of faces at the top. Their elders, meanwhile, are fighting to preserve their positions.

Yasser Arafat, the PA's president, has been advising Mr Abbas not to make “dramatic changes”. Mr Abbas, who is trying to assert his independence from Mr Arafat, is said to want a more radical overhaul.

Mr Abbas may also have trouble persuading the suicide bombers to stop. Ismail Abu Shanab, a Hamas leader, says that any ceasefire will depend on what the Israelis do. “Hamas too has an interest in Israel withdrawing from our cities,” he says. “If Abu Mazen can achieve this, we will do our bit to help him. If not, Hamas will lead the resistance.” According to the PA labour minister, Ghassan Khatib, Mr Abbas's strategy “is dependent on co-operation from Israel, intervention from America and goodwill from Hamas. And none so far has been forthcoming.”

Meanwhile, Israeli critics of the government of Ariel Sharon suspect that its cavilling over the details of the road map is intended, ultimately, to frustrate the entire exercise. In February, government sources let it be known that they would submit 100 amendments to a proposed draft approved by the Quartet. This went down badly in Washington. The Bush administration would rather publish the text first, and then start the haggling. The latest leaked reports in Jerusalem suggest that Mr Sharon now has a more modest list of 15 “reservations”. For instance, he is said to want the Palestinians to recognise Israel as a “Jewish state”. Some Israeli ministers also demand an explicit Palestinian renunciation of the “right of return” (of Palestinian refugees and their progeny to Israel).

If the road map were implemented, Mr Sharon's coalition could quickly split apart. Optimists believe that despite that risk, the prime minister will go ahead, if Mr Bush prods him hard enough. He cannot afford, they say, to jeopardise his ties with America. The optimists presume, too, that Mr Sharon, 75, is looking to his place in history, and that he wants to go down as a peacemaker. Others, less sanguine, point to another hardline Likud prime minister, Yitzhak Shamir, now retired, who proudly cites his place in Israeli history as the leader who gave not an inch of land in a decade of negotiation.

The pessimists point to an ominous build up of hostility to the road map among Jewish groups in America: “Road map, road kill”, reads one headline. Israel's political supporters in Washington are urging the White House to hold out for sweeping Palestinian reforms and a lasting ceasefire before making any demands of Israel. Will Mr Bush also hold out for what he has pledged will be a “viable and credible” Palestinian state as the road map's final destination? It is hard to say, but at least he is in a strong position now.

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Liberia's civil war

The mother of local wars

Apr 10th 2003
From The Economist print edition

Flames in Liberia scorch the neighbours, and vice versa

UNIFORMS are rare in the Liberian army. Combat units seek to identify themselves by wearing T-shirts of the same colour. The Navy Division, for example, is so called not because it has anything to do with boats, but because its members wear yellow T-shirts with the logo Navy Ranger on the front. By Liberian martial standards, this is sober attire. Drugged-up rebels have been known to sport pink bathrobes and shower caps. Unfortunately, the T-shirts are in short supply, and rebels have recently captured and worn some, creating utter confusion.

Liberia's war is as horrific as it is messy. The two main belligerents—the government of President Charles Taylor and the rebels who call themselves Liberians United for Reconciliation and Democracy (LURD)—are more or less equally vicious. There is no clear front-line, and almost no media coverage, so it is hard to know who, if anyone, has the upper hand.

Last month, LURD rebels advanced within a few kilometres of Monrovia, the capital. There has also been heavy fighting in Gbarnga, in the centre of the country, and in Ganta, near the border with Guinea (see map). For the first time, shooting has started in eastern Liberia, near the border with Côte d'Ivoire. The government maintains that a new rebel group there, the Movement for Democracy in Liberia, is in fact linked to the LURD. The LURD denies any involvement.

The war has for some years been closely intertwined with conflicts in neighbouring Sierra Leone and Guinea: the Liberian government is under UN sanctions (to be reviewed next month) for having allegedly backed Sierra Leonean rebels, and the Guinean and Liberian governments each allegedly back each other's. Now, Liberia is being scorched by, and scorching, yet another neighbour.

Last November, two new rebel groups emerged in western Côte d'Ivoire, near the border with Liberia. Observers suspect that the groups, which are reported to be composed mainly of Liberians, enjoy the support of Mr Taylor, who was a close ally of Robert Guei, an Ivorian general and former coup leader who was killed last year, probably by forces loyal to the Ivorian government. According to the International Crisis Group (ICG), a lobbying think-tank, commanders close to Mr Taylor have been spotted with the rebels. The Liberian government denies it.

Liberian mercenaries are involved on the other side as well. Kofi Annan, the UN secretary-general, has told the Security Council that the Ivorian army has reportedly recruited Liberian fighters, including some from refugee camps. On March 7th, French military peacekeepers intercepted 110 fighters in western Côte d'Ivoire who they said were Liberians fighting alongside Ivorian government forces. An ICG report to be published next week goes one step further by claiming that the LURD has helped the Ivorian authorities to recruit Liberians. In addition, the ICG says that members of the Ivorian army and government have supplied weapons to the LURD.

Ordinary Liberians cannot decide where to flee. Some have made it to Guinea or Sierra Leone, but many are stuck in battle zones, out of reach of aid-workers. Another wave of refugees, nearly 100,000 of them, have fled into Liberia from Côte d'Ivoire. According to the UN's refugee agency, more than 45,000 of these have been forced to flee again, by the recent fighting in eastern Liberia. Some have made it to the

southern Atlantic coast, but they have nowhere to go from there. Atrocities have become part of daily life. Both sides kidnap, conscript, rob and rape.

The UN has asked for $42.6m this year to help run camps for homeless Liberians, which are currently overcrowded with 180,000 fugitives and getting short of food. It has received less than $1m. The prospect of a ceasefire appears remote, but Mr Taylor is sticking to his plan to hold national elections next October. In a move that may or may not be related, he recently banned street preaching in Monrovia.

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Côte d'Ivoire

Rebels in the cabinet

Apr 10th 2003 | YAMOUSSOUKRO
From The Economist print edition

Stumbling towards peace

Get article background

THE civil war is less than seven months old, but Côte d'Ivoire's rebels have already won nine places in the cabinet. Having swapped their camouflage gear for smart suits, the guerrillas-turned-ministers flew to Yamoussoukro, the capital, in French helicopters, and sat down for their first cabinet meeting. Across the table was Laurent Gbagbo, Côte d'Ivoire's president, who has been pushed by France into a power-sharing deal with the rebels. The meeting, which took place last week under the benevolent gaze of three other African presidents, was the first sign that the deal might actually work.

But when the ceremony was over, a group of South African mercenaries checked back into the plush government-owned hotel where the visiting dignitaries had stayed. “They moved us out of this place just for the day. I can't think why,” quipped one, as he clambered out of a khaki vehicle with no licence plate.

Côte d'Ivoire, once the most stable country in West Africa, fell apart last September. After a failed coup, a rebel group called the MPCI seized control of the northern half of the country. French troops, later reinforced by West African peacekeepers, intervened to keep the rebels and the regular army apart, and so prevented worse bloodshed. But the two sides are still eager to be at each other's throats, and the situation is complicated by the appearance of more rebels in the west, near the border with chaotic Liberia.

In some ways, the peace deal has improved matters. Some roads between the north and south have reopened, allowing cotton and sugar grown in the north to be trucked down to Abidjan, the southern port which is also the commercial capital. But gendarmes at roadblocks in the south still aggressively harass anyone who looks or sounds like a northerner. Young rebels, meanwhile, are bored and restless after months of stalemate. One group in Bouaké, the main MPCI stronghold, sit playing with their guns and drinking a hearty breakfast of pastis. Asked if they trust the president, one moves a thumb to his throat in a well-practised motion. “When we get to Abidjan”, he says, “we're going to kill him like a chicken.”

Guillaume Soro, a 30-year-old MPCI leader who has just been appointed minister of communications, argues that taking part in the “national reconciliation” government will allow his organisation to achieve its aims, which include an end to official discrimination against northerners, who are mainly Muslim. But he and his fellow rebel ministers refuse to take up their posts in Abidjan, where most government business takes place, unless they can bring their own security, in the shape of 30 bodyguards each.

Many southerners, meanwhile, are furious that the rebels are to be given a slice of power. As the new cabinet met in Yamoussoukro, hundreds of stone-throwing youths blocked a highway into Abidjan, promising to fight to keep the rebels out. The previous week, six ministers from the RDR, the main non-violent opposition party, who had returned from exile to take up posts in the new government, were confined to their hotel by fears of shadowy death-squads. West African peacekeepers were assigned to protect them.

Despite the peace accord, fighting continues, and the 1.2m people who have fled their homes are mostly too scared to return. Western rebels this week accused the government of attacking one of their bases

with helicopter gunships, of the sort often piloted by mercenaries. The government replied that it was the rebels who had attacked the regular army. Félix Doh, the military head of one western rebel group, accused President Gbagbo of allowing Liberian rebels to use Côte d'Ivoire as a rear base, thereby inviting Liberia to retaliate. He also accused Mr Gbagbo of transporting military equipment across the border, in preparation for an attack on the west from Liberia once the rebels have disarmed, as the pact says they must. The government denies it all.

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Justice, Ugandan-style

Idi Amin's man in the dock

Apr 10th 2003 | KAMPALA
From The Economist print edition

Trials and tribulations

JUSTICE Moses Mukiibi looks like a British judge, in his scarlet robes and itchy wig. The laws he upholds are based on British law, too, but his budget and administrative back-up are Ugandan. So, although he is presiding over a sensational murder trial, involving the former dictator Idi Amin's army chief, things are not going smoothly.

A witness from northern Uganda, where an apocalyptic rebel cult often waylays travellers, is afraid to take the bus to Kampala, where the trial is taking place. One of the private investigators who worked on the case has died, of AIDS. A magistrate who heard two of the three defendants confess has since been sacked for taking bribes. And the prosecution's case is made even harder by the fact that the murder in question took place 30 years ago, during a period in Ugandan history when between 100,000 and 300,000 other people were being murdered by Mr Amin's government.

The victim was a politician named Eliphaz Laki, who disappeared in September 1972. His body has never been found; nor has his Volkswagen Beetle, which his killers took as booty. No serious investigation was made until 2001, when his son, Duncan Muhumuza Laki, a lawyer, decided to find out what happened. He looked up the records for his father's car in a tax registry, and found that soon after his death it had been re-registered in the name of another man, Mohammed Anyule. Mr Laki junior hired private investigators, who tracked down Mr Anyule, who led police to the purported gunman, who claimed that the murder had been ordered by one Major Yusuf Gowon, who later rose to become army chief of staff.

Mr Gowon is now in the dock, along with Mr Anyule and the alleged hit-man, Nasur Gille. The prosecution is struggling to prove its case, however. The two small fish have retracted their confessions, and Mr Gowon says he is innocent. Several witnesses are dead or cannot remember, much evidence is long lost, and Uganda's legal system is often unable to deal with the simplest crimes, let alone this one.

Mr Mukiibi, who takes the official court record in longhand, is juggling 30 cases before him this session, over half of which involve the crime of “defilement” (the age of consent is treated as a rough guideline in much of Uganda). The prosecutors are similarly swamped, and the accused men's energetic young defence lawyer, Caleb Alaka, is simultaneously negotiating a peace agreement on behalf of a rebel army that wants to give up.

Then there is the problem of language. Uganda has 50-odd, and some witnesses do not speak English, the language of the court. All evidence must be translated into English, whereupon it is retranslated into Swahili for Mr Gowon, and Lugbara, the language of Mr Anyule and Mr Gille.

On a typical day, Judge Mukiibi refuses to admit several documents as evidence because the police seem to have mislaid the originals, and he will not accept photocopies. A policeman explains that the registration document for Mr Laki's car cannot be retrieved because the bureaucrat in charge of such files is on leave.

Delay follows delay. Mr Alaka, the defence lawyer, stops showing up, as his job representing rebels takes too much time. The case is adjourned until April 28th. Justice, Ugandan-style, is slow.

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Turkey

A muddled message from an embattled new government

Apr 10th 2003 | ISTANBUL
From The Economist print edition

It is becoming unclear exactly what sort of country Turkey's prime minister, Tayyip Erdogan (pictured above), hopes to build or how he wants to set about it

Get article background

ONLY five months ago, millions of Turkish voters, fed up with the corruption and inefficiency of Turkey's old guard of aged politicians, gave the country its first single-party government in 15 years, under the aegis of a brand-new outfit, the Justice and Development Party. The markets were enthusiastic. The main index of Istanbul's battered stockmarket shot up, while interest rates fell below 50% for the first time in nearly a decade. Here at last, it seemed, was a strong government that could push through long-delayed economic and democratic reforms, settle the Cyprus problem and give Turkey a decisive shove towards joining the European Union.

But how fast things have changed—for the worse. Confidence in the party, better known by its Turkish initials AK, has begun to wear thin. The economy again looks wobbly, a UN-sponsored peace plan to reunite the Turkish and Greek bits of Cyprus is back on the shelf and, should the war in neighbouring Iraq drag on, its effects on Turkey could worsen sharply.

For all of this, AK, which has never tasted power before, should not take the whole blame. The war is badly hurting Turkey's multi-billion-dollar tourism industry, which, together with exports, earns most of Turkey's foreign exchange. It had been hoped that holiday-makers would bring in some $13 billion this year. “Small chance of that now,” groans Turkey's habitually cheery foreign minister, Abdullah Gul. Turkey's largest tour operator, Oger, which caters mainly for Germans, says that 90% of reservations for this season have been cancelled. In Turkey's impoverished Kurdish provinces in the south-east, trade with Iraq, the mainstay for thousands of families, has dried up.

True, ripostes AK's swelling army of detractors. But had Tayyip Erdogan, the AK leader who became prime minister only last month, managed to get parliament to push through a bill to let

American troops attack Iraq from Turkish soil, the country's finances would have been in far better shape. When the AK-dominated parliament failed by just three votes to approve the bill, Turkey forfeited loans and grants from the United States worth $24 billion.

Now, in exchange for belatedly opening airspace to aircraft of the American-led coalition, a decision that rescued American-Turkish relations from breaking down altogether, the country may settle for $8 billion. Moreover, things could still go badly wrong, if Turkey's generals decided to invade northern Iraq to stop the Kurds grabbing oilfields near Kirkuk. The Americans have told the Turks not to, as the Kurds have promised they would fight back.

Turkey can ill afford another bust-up with George Bush's administration, whose support remains essential if the IMF is to continue to help. The country has to roll over total debt repayments due this year worth $93.5 billion, of which some $80 billion is short-term domestic debt. With inflation creeping back up (to nearly 30% at the latest annualised monthly rate) and interest rates on the rise once again too, “the main concern now”, says Atif Cezairli, head of research in Istanbul for ING, a Dutch bank, “is whether the government can continue to service its debt by successfully lowering real interest rates.”

That in turn depends on whether the government can restore confidence in the markets. They, however, fell precipitously earlier this year, when, in a bout of populism, the government raised civil-service pensions and wages without explaining where the money to pay for them would come from. It also failed to explain how it would pay for fresh subsidies pledged to sugarbeet producers and for 15,000km (9,325 miles) of new motorways.

Still, with less American cash on offer than before, the government may have regained a new sense of fiscal prudence and has now promised to cut spending and raise taxes. As a result, the IMF has agreed to disburse a loan of $1.6 billion as part of a stand-by deal worth $16 billion. But instead of releasing the money in one go, as it normally does, the Fund will do so bit by bit to ensure that the government sticks to its word.

More hopeful are AK's continuing efforts to make Turkey more democratic. Last month's banning of Hadep, the country's largest pro-Kurdish party, on the flimsy charge that it was acting as a front for the Kurdistan Workers' Party (PKK), the main separatist guerrilla group in Turkey, hardly seems to bear that out, but that case against Hadep was in fact launched under a previous government. In contrast, the new parliament has approved a clutch of sweeping constitutional reforms that will make it much harder to shut down parties and easier to prosecute torturers.

Gone, too, is a much-ridiculed ban on the use of the letter W, which exists in the Kurdish alphabet but not the Turkish one—and landed many a Kurdish publisher in court. Parliament is also expected to pass a bill to scrap reduced jail sentences for “honour crimes”, which usually involve men murdering unmarried female relations, sometimes even for such “offences” as going to the cinema with a member of the opposite sex. Parliament is also likely to soften laws on broadcasting in Kurdish.

It will be much harder, however, to reduce the lingering influence of Turkey's generals on politics. They still tell the minister of defence what to do. They even—when it comes to Cyprus—appear to give orders to the prime minister.

Mr Erdogan deserves credit for trying, before he became prime minister last month, to persuade the Turkish-Cypriot leader, Rauf Denktash, to sign the latest peace plan proposed by the UN. The generals, who cherish the island's Turkish part as a strategic asset, promptly slapped him down. On this point, the country's president, Ahmet Necdet Sezer, who sees the generals as the guarantor of Turkey's secular system, is their sturdy ally. Moreover, Mr Sezer has used his power to delay a number of appointments of AK nominees to senior posts in the civil service, on the ground that they are not qualified. More likely, it is because their association with Mr Erdogan dates back to the days when he was a member of an overtly Islamist party banned on charges that it sought to overturn the secular order.

It is plainly hard for Mr Erdogan to decide where his loyalties ultimately lie. The religious conservatives who have backed him already accuse him of betraying his Islamist ideals. On the other hand, though his own wife and those of half his cabinet cover their heads with scarves in the traditional Muslim manner, Mr Erdogan says that the symbolic issue of whether the headscarf may be worn in public places, long a touchstone for secularists who abhor the practice, is not especially important to his government. As the AK continues to muddle along in government, many Turks are puzzled. They wonder just what are its priorities—and Mr Erdogan's.

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Greece and the United States

Having it both ways

Apr 10th 2003 | ATHENS
From The Economist print edition

Some Greek politicians cannot resist playing the anti-American card

AP

Protesting against America, again

HAS the war in Iraq turned Costas Simitis, Greece's usually cool-headed prime minister, who is also the European Union's president for the first half of this year, into a noisy populist? In a televised speech to his Pan-Hellenic Socialist Movement (Pasok), he said that by waging war America and Britain were trying to undermine the EU. “Those fighting the war don't want to see progress in unifying Europe. They want it to weaken,” he said.

Once a professor at a German university, Mr Simitis used to scorn the anti-American conspiracy theories many Greeks like to invent. Colin Powell, the American secretary of state, has praised Greece's efforts to forge a common EU position on Iraq. Mr Simitis gave permission for American military aircraft to fly over Greece on their way to bomb Baghdad. The Americans also have access to a NATO military base on the Greek island of Crete.

But about 90% of Greeks, according to opinion polls, are against the war, including the unruly barons in Mr Simitis's party. Pasok consistently trails behind the conservative New Democracy party by around eight percentage points, and a general election is less than a year away. Costas Laliotis, Pasok's tough-talking secretary-general, has told public-sector trade unionists that they are free to take to the streets in protest against America. Teachers at state schools have cancelled classes and joined demonstrations, encouraging their seven-year-old pupils to chant “American murderers”. A statue of President Harry Truman, erected in gratitude for the American Marshall Plan funds that helped to rebuild Greece after the second world war, has been covered in packaging marked “Return to sender”.

The demonstrations also help divert attention from Pasok's own problems. Inflation is on the rise, exceeding an annual rate of 4% last month, and the flow of EU funds that puts money into the pockets of Greek contractors and computer companies has slowed as the European Commission imposes tighter accounting controls. Embarrassingly, several sections of EU-financed highway in southern Greece collapsed during a wintry spell in February because of poor workmanship; questions are being asked about the way the contracts were awarded. Now a cold snap has damaged this summer's fruit crop: farmers are demanding compensation.

Greece will be in the spotlight on April 16th, when the EU'sleaders and those of the prospective new members are to gather in Athens for a treaty-signing ceremony. It should be a glittering event, staged,

to show off Greece as democracy's cradle, in a classical-era building, the Stoa of Attalos, which has been restored to its former glory by American archaeologists and philanthropists. Mr Simitis has declared a public holiday to mark the occasion, partly because security measures will block access to the city centre. Will he stop Mr Laliotis from drafting civil servants, teachers and schoolchildren for the mother of all anti-American protests?

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Germans against the war

Don't buy American

Apr 10th 2003 | BERLIN
From The Economist print edition

Some anti-war Germans are boycotting American goods

Get article background

THE latest member of a growing band is Eberhard Hoffmann, a skin-and-venereal-diseases doctor in the northern state of Schleswig-Holstein. His contribution to the cause of world peace has been to hang on the door of his surgery in the town of Rendsburg a notice that says he is no longer prepared to treat British or American patients “or their sympathisers”. The notice also mentions the way Germans have been made to bear collective guilt for the sins of the Third Reich, implying that what is sauce for the Teutonic goose should also be sauce for the Anglo-American gander.

Having failed to get Dr Hoffmann to remove the notice, the local doctors' guild reported him to the courts. But he is not alone in his attitude. Indeed, war-induced transatlantic tension syndrome may, in some places, be acquiring the same ugly, personal edge in Europe as in America.

American consumers' wrath seems so far to have been aimed primarily at France's “cheese-eating surrender monkeys”. But it is in Germany that retaliation appears to have been most widespread and concerted. Bars and restaurants in several parts of the country are refusing to serve Coca-Cola, Budweiser beer, Marlboro cigarettes and other renowned American brands. A German bicycle maker has stopped taking supplies worth around $300,000 a year from its American suppliers. And, with echoes of the renaming of “French fries” as “freedom fries”, some German bakers have given a new name to the round, iced cake formerly known as an *Amerikaner* and, in some places, endowed it with a chocolate peace symbol.

Those charged with promoting transatlantic trade have said that boycotting supposed American products may often endanger German jobs. “The Coca-Cola drunk in Germany is manufactured in Germany by German employees,” says Fred Irwin, head of the American Chamber of Commerce in Frankfurt.

That has not prevented a proliferation of German websites urging a boycott. “Let's go on boycotting American products and thus the American economy, which is responsible for this war,” rages www.consumers-against-war.de. Of course, the difficulty, in a world so infiltrated by American industry, is finding alternatives. That is where another website, www.klaus-krusche.de, comes in useful. It not only lists more than 250 American and British firms and their best-known products, but also suggests appropriate replacements: Ritter Sport bars for Snickers, Mövenpick ice-cream for Häagen-Dazs, and so on.

Some goods are trickier. For Viagra, patented by the American firm Pfizer, the best the site can offer as an alternative is “tea”. Not British, surely?

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Spaniards and the church

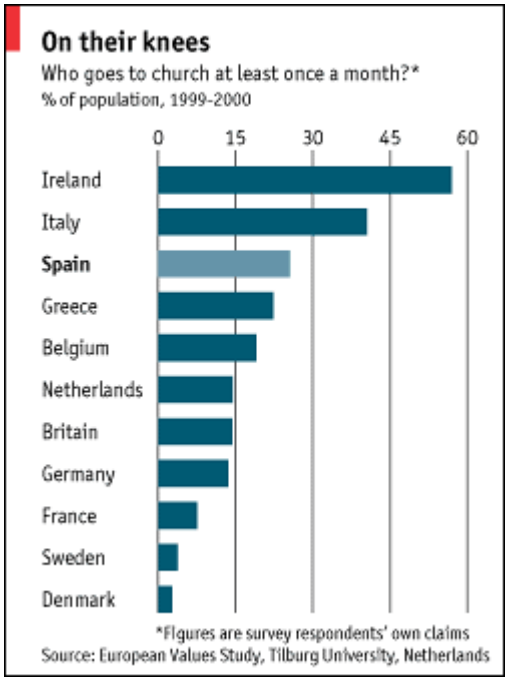
Contradictions

Apr 10th 2003 | MADRID
From The Economist print edition

It used to be spoken of as Catholic Spain. Not these days

THE pope will visit Spain in May, and he has been fiercely hostile to the war in Iraq. So are 90% of Spaniards. The curiosity is that Spanish opposition is led by the left, traditionally anti-clerical, while pro-war feeling is led by the decidedly Catholic government. The defence minister, Federico Trillo, is a member of Opus Dei, a conservative Catholic lay order, and he and two other ministers were in Rome last October when Pope John Paul canonised Josemaría Escriva, the Spanish founder of the order. Vote-catching? No: a recent survey of religious belief in Spain shows that this historically Catholic country may be ceasing to be so.

The church for years claimed that 90% of Spaniards "considered themselves" Catholic. Recent surveys say 80%. That is still a lot. But what does it mean? Antonio María Rouco Varela, Madrid's cardinal-archbishop, has admitted that for most such Spaniards "Catholic" is a label—to some extent of national identity—but not a way of life. A recent survey by a state-run research group attaches some figures to this. In 1975, 61% of Spaniards claimed to go regularly to church; now 19% do, while 46% of those who say they are Catholic concede that they "almost never" go.



That dramatic fall in the figures is not wholly fair to the church. Franco died only in 1975, and his regime had kept artificially alive the old integration of state with (an increasingly restive) church, and the idea that decent people went to church. So while even today's figure for church-going (19%) may be exaggerated—similar surveys elsewhere in Europe suggest that respondents' claims of church-going can be double the reality—the 1975 figure was probably still more inflated. Yet more reliable figures say the same. In 1952 Spain had 77,800 priests; last year, only 18,500, and 10-15% of parishes have no priest. In 1952 there were 7,050 seminarians studying for the priesthood, today only 1,800. Some seminaries began their courses last October without a single new student.

Look around the country, and—away from Madrid's bishops and the vast ecclesiastical citadels like those in Saragossa or Leon—the storks seem to have taken over Spain's dilapidated parish churches. The old saying was that "a Spaniard is always behind a priest, either with a candle or a stake". Today he can't be bothered.

Yet, despite this burgeoning secularism and the occasional row between government and clergy, many Spaniards, often but not only on the left, still detect an unhealthy entente between church and state. The church, they complain, is buttressed by public funds.

Not so, it replies. Under an accord with the government in 1979, Spaniards can give 0.52% of their income tax to the church by ticking a box on their tax returns. Some 40% used to do so; even now 32% do. The church says this brings it roughly $100m a year, and it will benefit from the system at least until a review in 2005. But this, say the bishops, is each taxpayer's choice.

There's worse, say the critics. Under another church-state agreement, the church was to have become self-sufficient by 1988; yet governments have not only let the tax-donation system run on but also go on

topping up the proceeds to levels enjoyed in the Franco years. Further money is funnelled to the church through schools and hospitals. Some public-sector banks like Caja Madrid make large tax-free donations to help maintain church buildings.

What irks the left even more is the church's continuing influence on education. Religious orders still run most of Spain's private schools, which also get government grants. The accord of 1979 put all teachers of religion under the church's sway. Recently, however, “sinful” teachers sacked for not going to mass, for instance, or for marrying divorcees, have started to appeal against such decisions.

But don't overstate this government's obeisance to the church. At a meeting of senior officials this year, it was Mr Trillo who pointed out that, in matters of Iraqi war and peace, the pope's word was not the word of God. Which is true doctrinally, but, given their readiness to back George Bush rather than John Paul, suggests that they did not much care anyway.

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Russia's second city

Potemkin city

Apr 10th 2003 | ST PETERSBURG
From The Economist print edition

Russia's former capital is trying to restore its image

AP

Angelic weathervane for homeboy Putin

"CAN'T you turn down the heating?" Svetlana and Natasha ask the foreman. As winter fades, it is getting decidedly warm inside the plastic-sheeted scaffolding that covers the Peter and Paul Fortress cathedral. The women have to cover 200 square metres of dome with gold leaf in fiddly 10-centimetre squares, and they must finish this month: it will take four weeks just to dismantle the scaffolding and the full glory of the dome must be revealed by the end of May.

That is when St Petersburg celebrates the 300th anniversary of its foundation, with street parties and fairs and, if all goes to plan, 45 visiting heads of state. So far the locals are unimpressed. The decoration is all superficial, they say, to please the dignitaries. More urgent infrastructure investment is being neglected. One central square, the site of a promised new metro station, has been repeatedly dug up and filled in. The link between two other stations has been broken for seven years, so passengers have to be bused between them. Foreign grandees will be ferried around the city's canals—to reduce traffic, say the authorities, but probably as much to prevent them noticing the state of the roads. Visitors from Moscow note how much shabbier St Petersburg looks.

To be fair to the city's governor, Vladimir Yakovlev, Moscow has long been disproportionately rich. Though it has only about twice the population, it has over five times as big a budget. Many companies register and pay tax in Moscow even if they operate somewhere else. Last year it got $1.5 billion in foreign direct investment, over a third of the national total. St Petersburg had a measly $84m. That, says Sergei Tsyplaev, a former presidential envoy to St Petersburg, is partly because its authorities took the wrong attitude to investors when communism collapsed. "They said: 'We're such a beautiful city, everyone will come to us and we will be able to pick and choose'." In fact, there was no rush. Indeed, it still gets even less foreign investment than the surrounding Leningrad region (as it is still called), which has actively wooed foreigners.

The sprucing up is being done on a shoestring budget too. Even with extra federal money, the city has had only $45m over two years to spend on the restoration of 92 monuments and historic buildings. Mr Yakovlev is so eager to raise cash that, for $50 a go, visitors will be allowed to fire the ancient cannon that guards the Peter and Paul Fortress, normally discharged daily at noon with such a bang that it sets off car alarms hundreds of metres away.

The preparations have become the centre of a simmering row between Mr Yakovlev and the federal government, which is filled with Petersburgers from Vladimir Putin down. Last week Mr Yakovlev, governor since 1996, said he would not run again, thus opening the way for a replacement more to the taste of Mr Putin, who is said to have long disliked him.

The federal and city auditors have both said money has gone missing. Last year the federal construction company, Gosstroi, took the management of the restoration works over from the city, after Mr Putin himself had complained that federal funds had been misspent. At the end of March the federal auditors

filed a new complaint against Mr Yakovlev for ignoring their previous investigations, while the finance ministry froze budget payouts to the city, saying it had not properly accounted for the previous year's spending.

The governor has been on tense terms with Mr Putin ever since he challenged Anatoly Sobchak, the incumbent and Mr Putin's then boss, for the post in 1996. The state-controlled television channels, slavish admirers of Mr Putin, play up criticism of the governor. And his relations with Victor Cherkesov, Mr Putin's envoy (one of seven regional emissaries), have been notoriously bad. “They would never even turn up to an event together,” says a foreign banker in St Petersburg.

So it is probably good news that last month Mr Putin replaced Mr Cherkesov with Valentina Matvienko, a former deputy prime minister. His motives are unclear: it looks like a bid to position her to run for the governorship next year, though she failed even to come close in 2000. It may also have been to put Mr Cherkesov, now designated to take charge of Russia's campaign against drugs, closer to the federal centre, where he can double as Mr Putin's own re-election fixer. Whatever the reason, Ms Matvienko has already begun building bridges to Mr Yakovlev, and has even hinted at plans to move some federal ministries to St Petersburg.

So relations between the Kremlin and city authorities should improve. To Petersburgers, nerves jangled by pot-holed roads and a barrage of cannon-fire, a smoother ride will be welcome. They may also come to appreciate that Russia's current elected tsar is bringing their city back to prominence as their country's “window on Europe”, as its founder intended it to be. On April 12th, Europe's three leading opponents of America's war in Iraq—the German chancellor, France's president and Mr Putin himself—are to meet in St Petersburg (see article). A rare case of the “old world” being called back into existence to redress the balance of the new?

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Charlemagne

NATO versus the European Union

Apr 10th 2003
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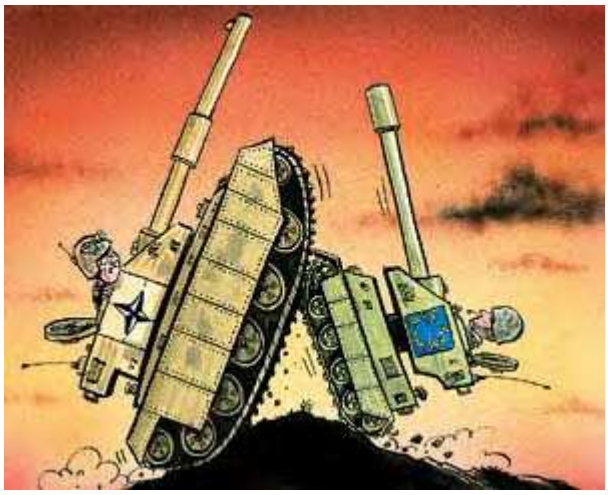

The aftermath of the Iraq war could turn NATO and the European Union into rivals

Get article background

SO WHAT do the European politicians who spent so much time trying to prevent war in Iraq make of things now? Their reaction to the victory of the American and British forces is, so far, confused and grudging. In the early stages of the war Dominique de Villepin, the French foreign minister, dodged a question about whether he even wanted the coalition forces to win—before rushing out a clarification that of course he favoured victory for the allies. But, though official statements from European politicians who opposed the war now tend to be soothing and conciliatory about the United States, occasionally the mask (or the tongue) slips and naked hostility emerges. Guy Verhofstadt, Belgium's prime minister, recently said that the United States is “a deeply wounded power that has now become very dangerous and thinks it must take over the whole Arab world.”

Alarmed by the prospect of a new American imperium, European leaders will once again try to use the United Nations to rein in America. A call for the UN to run post-war Iraq is likely to emerge from a summit meeting of the French, Germans and Russians to be held in St Petersburg this weekend. The demand will be made in the name of international law. But there is also a clear element of self-interest, since France and Russia are permanent members of the UN Security Council.

Although the UN is likely to emerge as the central institutional battleground in the Iraq debate, the future of other international institutions is also now in question. Some Europeans are using Iraq to make a much bigger effort to turn the EU into an independent military power. Mr Verhofstadt is holding a mini-summit in Brussels at the end of the month, bringing together France, Germany, Belgium and Luxembourg to discuss European defence. The Americans are uneasy. Their ambassador to NATO says firmly that his government believes that “NATO should remain the pre-eminent security organisation in Europe”. The United States, for its part, has floated the idea that NATO should play a role in peacekeeping in post-war Iraq. Quite apart from the alliance's military clout, it would be politically helpful to give the British-American alliance extra multilateral support—without the complications and discord that would come with UN involvement. Unsurprisingly, France is less than keen.

Both discussions highlight the danger that the ambitions of NATO and the EU could begin to collide. Ever since the EU decided in late 1998 that it would develop a military capability of its own, diplomats at both NATO and the EU have slogged through long hours of negotiation to make sure that their relations are

co-operative rather than competitive. When the Union launched its first small military operation in Macedonia earlier this month, taking over from NATO peacekeepers, top officials from both organisations were on hand to grant their blessing. The EU's senior military man (a German admiral), now overseeing the Macedonian operation, is actually based at NATO.

But France has always believed that in the long run the EU must assert its independence of NATO, an organisation it regards as ultimately an instrument of American foreign policy. Without an independent European defence force, the French believe there can be no independent European foreign policy. Michel Barnier, a Frenchman who recently chaired a working group on defence at the EU's current constitutional convention, says he wants Europe to foster a relationship with the United States “based on alliance, not allegiance”.

This rather abstract intellectual debate will come down to some hard practical issues in the coming months. Foremost among them will be the question of whether the French, Germans and others can persuade the EU to develop its own military planning structure independent of NATO—or whether indeed they decide to form their own military alliance outside the formal structure of the EU. As one senior NATO official puts it, “The issue of a separate EU military command is a huge dividing line.” Some of the arguments against developing such a facility are financial. An American diplomat argues that “when the EU has such huge unfulfilled needs for military equipment, in things like heavy-lift aircraft, the last thing it needs to do is to spend money duplicating facilities it can already use at NATO.” But lurking behind this practical objection is a political concern: why exactly do some European leaders think it so urgent to cut America out of their military planning?

A rather small pouvoir

If it comes to an arm-wrestling match between the Americans and France, the odds are that the Americans will prevail. In both NATO and the Union, the French are in a minority on defence. NATO's whole culture is profoundly Atlanticist. When France opposed proposals for NATO to aid Turkey before the Iraq war, it found only two supporters (Germany and Belgium) among NATO's 19 members. A proposal to discuss a bigger NATO role in Afghanistan was recently approved 19-0.

Most NATO diplomats say it is too early to discuss the alliance's role in Iraq—but nobody seems willing to rule the idea out. French efforts to take European defence in a direction that might annoy the Americans are also drawing strikingly little support from within the EU. The fact that Germany, the EU's largest country, is attending the defence mini-summit means that the idea cannot be dismissed, particularly since France and Germany have often been the motor of European integration. But it is still a very mini-summit, gathering up only four of the Union's 25 current and future members. Many of those who have long been keenest to integrate Europe, such as the Dutch, Italians and Spaniards, have explicitly distanced themselves from the meeting. And most military analysts think a European army without Britain would be absurd. It is ironic that a defence initiative promoted in the name of European unity could well turn out to exacerbate the European Union's divisions.

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The budget

Deeper into the red

Apr 10th 2003
From The Economist print edition

Reuters

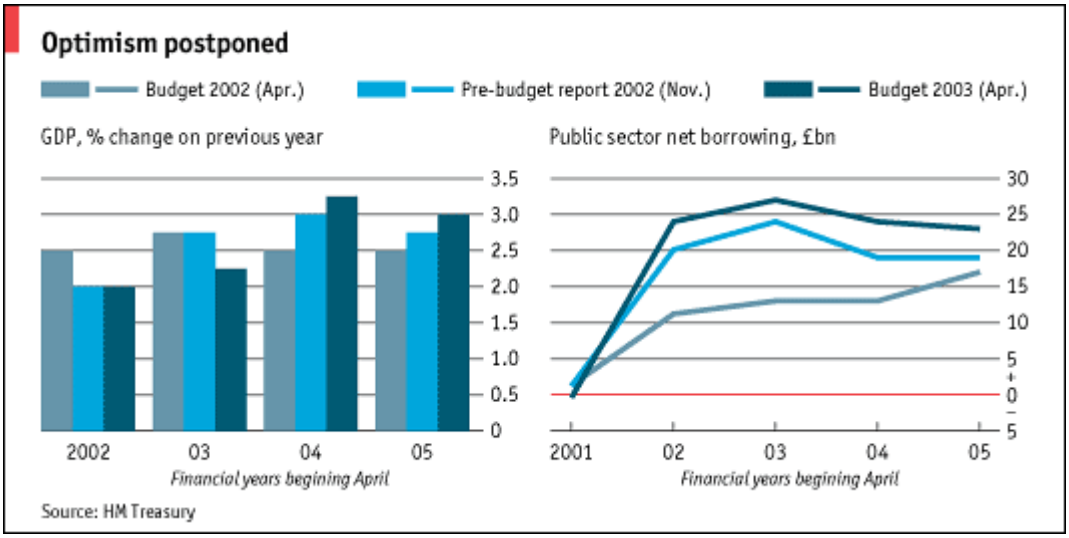
The chancellor's most worrying deficit is his growing credibility gap

Get article background

IN LABOUR'S first term in office, Gordon Brown appeared to cast a magic spell over the country's finances. Time and again, he was able to announce bigger surpluses than expected. These allowed the government to embark upon a pain-free spending spree that dictated the terms of the general election in 2001.

In Labour's second term, Mr Brown's unhappy task in successive budgets has been to announce bigger deficits than expected. As they swell, the potential costs of financing Labour's big spending plans become more and more painful to taxpayers, who this month start paying the delayed tax increases of the 2002 budget.

Last November, Mr Brown had to reveal big increases in his borrowing requirement from the forecasts he had made in April 2002. Now he has had to push them up again. The chancellor reckons that this year's budget deficit will be £27 billion ($42 billion), up from £24 billion in November and £13 billion a year ago. In the four financial years from 2002-03 to 2005-06, Mr Brown will have to borrow £44 billion more than he predicted in April 2002.



Nevertheless, the chancellor claims that the public finances remain in good shape. Public debt as a proportion of GDP is low, compared with other big countries. And the government is complying with the "golden rule": that over the economic cycle, it only borrows to invest.

But Mr Brown's interpretation of the golden rule is too flexible to convince. It allows him to count the big current-budget surpluses amassed in the fat years of Labour's first term against the deficits he is now running. It disregards the fact that in the last year of the economic cycle, which according to the Treasury runs from 1999-2000 to 2005-06, there will be a surplus of only £2 billion on the current budget.

Even that wafer-thin surplus is built on aggressively optimistic forecasts for growth. Mr Brown has downgraded his forecast for 2003-04 by half a percentage point. But he now expects the economy to claw back this shortfall in the following two financial years. He is predicting growth of 3-3.5% in 2004, well above the forecast for Britain of 2.6% that the European Commission published on April 8th, the day before his budget. And he expects more of the same in 2005.

These hopes for a sharp upswing are based on the belief that the economy will regain the ground that it is now losing while operating below capacity. But the Treasury's conviction that the trend rate of growth is now 2.75% a year—higher than its long-run rate of 2.5%—is not shared by the Bank of England. In its February *Inflation Report*, the Bank said that it was assuming growth in potential output of around 2.5% a year over the next two years.

The Treasury's quarter-point increase in its underlying growth assumptions looked dubious when it was unveiled a year ago, and even more so when census-based revisions indicated lower net immigration than it had originally assumed. The estimate now hinges on faster labour-productivity growth even though this has failed to materialise recently. A further reason for scepticism is that business investment plunged by 8% in 2002 and is expected to decline again this year.

Not only are Mr Brown's growth forecasts optimistic, so too are his estimates for tax revenues. His forecasts rely on a return to tax buoyancy—that happy state of affairs when revenues rise as a share of GDP without deliberate tax-raising measures. The budget forecasts that the tax take—current receipts as a proportion of GDP—will rise by over a percentage point between 2003-04 and 2005-06. Without this increase, revenues in 2005-06 would be some £15 billion lower than the Treasury is predicting. However, John Hawksworth of PWC, an accountancy firm, thinks that the tax take will increase over this period by only half a percentage point of GDP. That would leave a shortfall of £9 billion in 2005-06 on the Treasury's projection.

Most of the increase in the tax take projected by the Treasury comes from a recovery in corporation tax. This is supposed to rise from 2.5% of GDP in 2003-04 to 3.2% in 2005-06. But Mr Hawksworth cautions that this appears to be based on unrealistic hopes for a bounce-back in the profitability of companies in the financial-services and information-technology sectors. He expects corporation-tax revenues to recover to only 2.8% of GDP in 2005-06.

When Mr Brown became chancellor in 1997, he got the Treasury to find out why fiscal mistakes had occurred in the past. One lesson was "a failure to guard against optimism and build in a margin for prudence against unexpected events". In Labour's first term of office, Mr Brown took that lesson to heart.

In his second term of office, he appears to have forgotten it.

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The euro decision

Not quite there

Apr 10th 2003
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Decoding Mr Brown's hints about the euro

THIS was not the speech that Mr Brown had hoped to give. Faced with owning up to higher borrowing, he would have liked a diversionary tactic. Announcing the long-awaited assessment of whether Britain is ready to join the euro would have done nicely, but Mr Blair, anxious to repair relations with Europe, would have none of it.

Even so, Mr Brown implied what the outcome of the assessment would be. Helpfully, he pointed out that long-term interest rates were now below those of the euro area. He drew attention to the fact that the unemployment rate in Britain was 5% whereas it was 9% in the single-currency zone. And he highlighted the fact that the British economy had grown over the past two years at roughly double the rate of the euro area. Looking ahead, “the largest repercussions” for the British economy arose from the fall in growth prospects for the euro area to around 1% in 2003.

Mr Brown left it to MPs to infer that there was no compelling case for joining the euro in a hurry. And he hinted that Britain's volatile housing market could prove at least a temporary barrier to a euro referendum. He announced a new study to examine how Britain could develop a long-term fixed-rate mortgage market and so wean itself off the ever-popular short-term floating-rate loan. Floating-rate loans make the housing market and the economy unusually responsive to short-term interest rates—which is a problem if they are to be set at European, not national, level.

Mr Brown also implied that Britain would fail the second of his famous five euro-tests: “if problems emerge is there sufficient flexibility to deal with them?” The rationale for this requirement is that national economies in a single-currency area can no longer adjust to shocks by changing interest rates. The chancellor said that the budget's microeconomic reforms were designed to achieve greater flexibility in capital, product and labour markets. He suggested that the assessment might also find fault with the euro area on this count: flexibility was “too often undervalued in Europe”. The budget may not have delivered a euro-decision, but it dropped some heavy hints.

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Baby bonds

The germ of a good idea

Apr 10th 2003
From The Economist print edition

Cash for babies isn't as silly as it sounds

Get article background

IT WAS not a surprise, since the idea of children's trust funds, or “baby bonds”, was included in Labour's manifesto. But Gordon Brown's announcement in the budget that the government would put money into a savings account for children at birth is nonetheless a welcome and intriguing idea—and one that has support from both left and right.

Most children will get £250 ($390) at birth, though poorer families (a third of the total, says the government) will receive £500 and their families will also qualify for full child tax credit. The government may later announce more payments as the child grows up. Family and friends will be able to top up this savings plan by up to £1,000 a year. They will mature when the babies reach 18, at which age they can splurge the money on whatever they like, or “the funds could be rolled over into other savings products,” says the government, optimistically.

Like many original ideas in political economy, this one was born in America. The debate was started in 1999 by two American academics, Bruce Ackerman and Anne Alstott, in their book *The Stakeholder Society*. Growing wealth inequality, they said, meant that few in America had a fair crack at life. Equal opportunity—the American dream—was a chimera. The two argued that the solution was to give every young American adult a stake of $80,000 “as a birthright”. This would be financed by an annual wealth tax. The left liked the scheme's redistributionist flavour and the classical liberals approved because it avoids government meddling and might be a way of getting rid of other sorts of welfare entirely.

In Britain the idea has been pushed hard by the Institute for Public Policy Research (IPPR), a left-leaning think-tank. Between 1988 and 1999, it says, the top 1% of the population increased its share of wealth from 17% to 23% (though this figure has presumably dropped with the stockmarket). Among those aged 20-34, the proportion with no wealth at all doubled between 1974 and 1996. Will Paxton of the IPPR says that research suggests that life chances—opportunities, in other words—are affected not only by the flow of money that people earn over their lifetimes but also by the stock they start with.

Quite probably true, though how much the scheme will help the poor is a moot point. For now, the chancellor's largesse is limited—the government says that baby bonds will only cost it £350m this year and £250m thereafter. And those doing the topping-up are unlikely to be from poor families. Still, the sums may offset some of the money that the poor will have to borrow to go to university.

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Northern Ireland

Off to Belfast, Ireland

Apr 10th 2003 | BELFAST
From The Economist print edition

AP

Don't squeeze so hard, Tony

Giving the peace process a helpful push

Get article background

IT IS a measure of how far the peace process has come that, when Tony Blair and George Bush were looking around the world for a safe place to hold a summit, they chose Hillsborough, a village in Northern Ireland. It was, as it turned out, a good choice. Hillsborough was tranquil. Outside the mansion where president and prime minister talked and then met the Irish taoiseach, Bertie Ahern, a half-dozen protesters lay peaceably on the street until they were carried away by police. The main demonstration a few miles down the road beyond police barriers became edgy only when youths shouting pro-war slogans unfurled banners in their midst.

Security aside, another reason for holding the summit in Northern Ireland is that it is probably the most pro-war corner of the British Isles. All the unionist politicians who represent the Protestant majority have supported the war: it is a British war, and they are keen to vaunt their sense of Britishness, which they think is undervalued in London. David Trimble and Ian Paisley, leaders of, respectively, the Ulster Unionists and the Democratic Unionist Party, say everyone in Northern Ireland should support British troops in Iraq and denounce nationalist “disloyalty”.

Most Catholic nationalists and republicans oppose the war: it is not just a British war but also, they believe, unjustified. Nationalists, including republicans who until recently openly supported IRA violence, are loud in their commitment to peace.

The British government hoped that this public demonstration of closeness between Mr Blair and Mr Bush might have a beneficial effect on the peace process: American pressure could speed up the “acts of completion” Mr Blair wants from both sides in the negotiations—most importantly, a declaration from the IRA that it is going out of business. The blueprint for the next stage of Northern Ireland's peace process was due to be published on April 10th, the fifth anniversary of the Good Friday Agreement, but, as *The Economist* went to press, last-minute wobbles suggested that the event might be postponed.

A strong statement from the IRA would ensure that Northern Ireland's political institutions, which were suspended last October, get going again. New elections to the devolved assembly are due on May 29th. What the IRA does will largely determine whether Mr Trimble, whose walk-out triggered the assembly's

suspension, returns to power-sharing with Sinn Fein.

If Mr Blair is relying on American help to nudge the IRA into making a move, it is to be hoped that the administration's commitment to the peace process is greater than its understanding of local political geography. Press credentials for journalists accompanying Mr Bush described their destination as “Belfast, Ireland”; and when Ari Fleischer, the president's spokesman, was asked where in Northern Ireland the meeting would take place, he said that it might be in Dublin.

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Nudity

Stark truths

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Naturists' respectability is at risk

EVEN before it becomes law, the Sexual Offences Bill is offering hours of innocent and not-so-innocent enjoyment to those interested in the sorts of human activity that seldom enjoy a public airing. Among the bill's other aims (new definitions of rape, for example) is a clause aimed at flashers that has aroused the ire of the nation's naturists.

The existing law on indecent exposure is almost as odd as the idea of nudism in Britain's damp and bracing climate. It covers only men exposing their genitals to women; to another man, however offensively, this is no offence. Women flashers (a small but, apparently, niggling problem) do not exist in the eyes of the law. It also fails to deter militant nudists such as Vincent Bethell, who likes walking naked around London. This has cost him five months behind bars (naked, naturally).

Mainstream naturist organisations detest Mr Bethell for harming their image. He in turn describes them as “a ruinous collection of self serving deadheads content to simply maintain their own pneumatic egos and perpetuate the myth that this lifestyle is one which must be pursued behind fences.”

The current problem, though, is not such lively internal debates, but clause 70 of the new bill, which defines a new offence, of “reckless” nudity. This sounds uncontentious until applied to the seaside. There is only a handful of official nudist beaches, but plenty of unsanctioned ones where British naturists have traditionally liked to congregate. They worry that the new law will be a boon to the busybodies, an odd category of nudity-phobes who like to turn up to naturist haunts in order to be offended and lodge complaints with the police. Another worry is that nudist families with children may fall foul of a measure intended to block paedophiles.

The nudists claim 2.5m supporters (based on an opinion poll which asked people if they liked nude sunbathing and swimming). They hope that will be enough to persuade Parliament to protect their hobby. The problem for the tidy-minded is that wording that helps the nudists may encourage Mr Bethell and other supporters of “body freedom” in their odd but harmless ways. As with so many other things, common sense would probably work better than a specific law.

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Social engineering

Offtoff huff off

Apr 10th 2003
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The government has climbed down from plans to force universities to discriminate against rich children

OFFTOFF, to give the Access Regulator its irresistible nickname, was to be a new outfit that would force universities to accept fewer toffs and more proles. Not any more. Proposed in January in a White Paper on higher education, the idea aroused a mixture of despair (from universities that think they already do everything possible to attract the miserably small number of qualified but underprivileged applicants available) and fury (from middle-class parents, who felt thrift and diligence were being penalised).

Instead, the government is proposing OFFA, the Office for Fair Access. The threatened “robust and challenging” regime for universities, backed by numerical targets for admission of students from poor homes, has given way to much softer criteria. Vice-chancellors who want to charge more than the minimum £1,100 fees for university courses must show that they are doing their best to narrow the class gap in admissions. That means, for example, working with schools in deprived areas, and agreeing “milestones and indicators” (much softer language than those tough-sounding “targets”) to monitor progress.

Left-wingers say that OFFA is a sell-out, which it is—but in a futile battle. Nine out of ten schoolchildren with the minimum two or more A-levels required for higher education go there already. It is true that some poor children are timid in applying for top universities, and some tweaks to the system might help uncover hidden talents. But the real problem is that so few (only a fifth) of those with the necessary qualifications are from working-class backgrounds to start with.

If universities relax admissions criteria too far in order to attract disadvantaged students they usually find that drop-out rates rise alarmingly—up to a third on some courses in London. The government penalises them for that too.

The roots go deep. Chris Woodhead, a former chief education inspector, highlights primary schools' continuing failure to teach literacy and numeracy properly, secondary schools' lack of academic rigour, demoralisingly low expectations of poor students, plus inverted snobbery about “elite” education.

None of that is going to change quickly. And the current shift to a debt-based model of higher education may make things even worse. As one headmaster in Newcastle points out, “the middle-classes love debt—they grow up with the idea that it is normal to be saddled with a big mortgage. For working-class children, family debt means loan sharks and bailiffs. Leaving university thousands of pounds in debt is a terrifying prospect.”

In theory, generous bursaries offer a solution, as in America. OFFA is supposed to encourage universities to provide these, currently almost unknown in Britain. But where will they find the money? Not inside the micro-managed and cash-strapped system of today.

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Jailing children

Crime school

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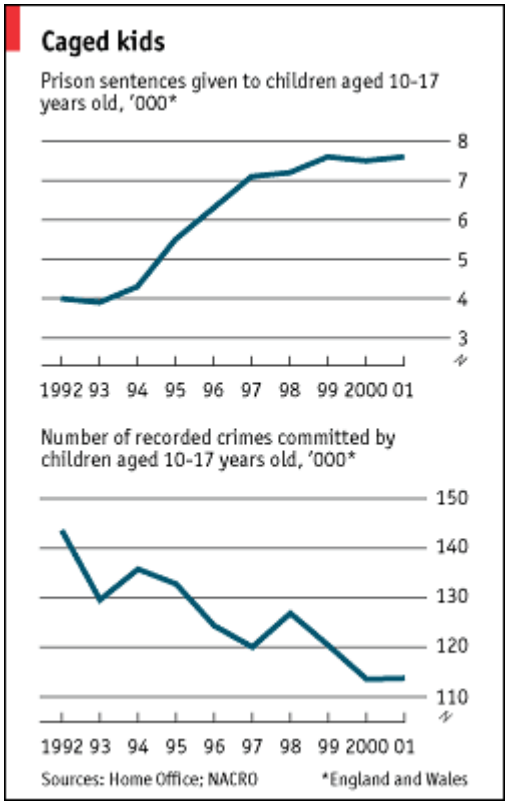
Britain's child imprisonment rate is rising fast, though child crime is falling



JOSEPH SCHOLES was 16 when he hanged himself in Stoke Heath Young Offender Institution last year. He had been sentenced to two years for being part of a street gang which stole a mobile phone. His only previous conviction was for attacking an ambulance man after a drug-induced suicide bid. He was a self-mutilator who often threatened to commit suicide. His mother, Yvonne Scholes, says he was mentally ill and should never have been jailed.

Britain is imprisoning more and more young people (see chart). A crime reduction charity, NACRO, says in a new report that current levels are a breach of a United Nations convention that forbids the detention of children except as a last resort.

The rate at which England and Wales imprison children is four times higher than France, ten times higher than Spain and 100 times higher than Finland. In Europe, only Germany and Greece imprison a larger proportion. The nine-fold increase over the past decade of imprisonment of those aged 10-15 is particularly worrying.

This might be understandable if it was a response to a juvenile crime wave. But the number of children cautioned, reprimanded, warned or convicted has declined by more than a fifth over the past decade. This decline predates the switch to increasingly punitive policies, so it is hard to claim that tough policies are bringing down crime. Nor is an increase in the gravity of offences responsible for the rise in custodial sentences. Most juvenile crime continues to be non-violent property offences such as theft.

The only plausible explanation for what has happened is the determination of successive governments to be tough on crime. In 1993, John Major, the then prime minister, urged society “to condemn a little more and understand a little less.” In 1997, the Labour government condemned the “excuse culture” that allowed young criminals not to take responsibility for their actions. The current home secretary, David Blunkett, talks even tougher.

The tabloids love this. Three teenagers in Chatham, Kent were dubbed “The Terror Triplets” and had their photographs published by the *News of the World* under the headline: “We reveal the worst child thugs in Britain.”

The response of juvenile courts around the country has varied. In Manchester and Merthyr Tydfil, juvenile offenders are four to five times more likely to receive a custodial sentence than in, say, Gateshead.

Some young offenders may truly be dangerous thugs by nature, but many drift into crime after a miserable childhood involving homelessness, drugs and dreadful schooling. Other countries seem to manage without locking children up in such large numbers, and at least try to tackle the underlying causes. It is a shame that Britain does not.

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Muslims

The war isn't over in Leicester

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Friction between old and young Muslims

Reuters

Young Muslims are looking for new leaders

IF the war in Iraq is over, nobody has told the residents of Highfields. Windows in the predominantly Muslim neighbourhood are still decorated with anti-war propaganda. Here, the war is widely seen as an imperialist attack on Islam.

But Leicester's 34,000 Muslims are not as united as they seem. The war has exposed a deep rift between the city's youths and the old men who dominate religious life—a rift that is unlikely to disappear when the fighting ends. One student says: “The mosques have let us down. I wouldn't say heads will roll, but the young Muslims who were out in the streets are going to have a lot of questions.”

The mosques have certainly been more involved in past protests. During the 1991 conflict, they became centres of anti-war agitation more or less through default: there simply wasn't much opposition elsewhere. A few years earlier, the Muslim clergy spearheaded the campaign against Salman Rushdie's novel “The Satanic Verses”. In one infamous 1989 episode, the Bradford Council of Mosques orchestrated a public book-burning—a foolish gesture that looked even worse a month later, when the Ayatollah Khomeini handed down a *fatwa* against the author.

During the current conflict, though, Britain's Muslim clerics have been unwilling to stick their necks out. Chastened by the bad publicity they received ten years ago, and now cowed into submission by the war on terror, they have become respectable, even docile. Along with the self-appointed “leaders of the Muslim community”, they have spent much of their time building bridges with police and local politicians, organising inter-faith prayers, and publicly attacking Abu Hamza, the unreconstructed imam of Finsbury Park. When they want to condemn the war, they do it in a newspaper article.

Young Muslims are unimpressed; and their disillusion with the older generation's stance is widening the gap between the street and the religious establishment. The mosques tend to be in the hands of the first generation of immigrants, and are run as virtual family businesses. Management committees are made up of men from the same country—even the same village. Imams are ill-paid and almost invariably imported from overseas. Few of them speak English, and they are poorly informed about political matters.

So young men and women have found other outlets for their views. Students have organised through Islamic societies; workers have pushed unions into anti-war stances. In constituencies with large Muslim minorities, there has been talk of deselecting pro-war Labour MPs or running independent candidates against them.

The oddest development—and, for the Muslim establishment, the most worrying one—has been the alliance with the hard left. For the past few months, the socialists who dominate the Stop the War Coalition have been a familiar presence around the mosques. Not everybody is happy about this. The radical Islamist group Hizb-ut-Tahrir has also been handing out leaflets, trying to drum up support for Muslim-only rallies. Yet its demonstrations have been thinly attended. Most, it seems, would rather march alongside atheists.

The Muslim-left alliance has enabled the Stop the War Coalition to put up large numbers—Leicester sent a total of 25 coaches to the two big London marches. In return, Muslims have got a national platform and some political shelter. This is particularly important for the students and young professionals who turn up at demonstrations in such large numbers. Their economic future depends on breaking into mainstream white society. They would suffer the most if the anti-war campaign took on an Islamic flavour.

Once peace descends, Britain's Muslims will want a proper venue to air their grievances. The war has brought them into conflict with their government, raising difficult questions about political loyalties. If the liberation of Iraq proceeds smoothly, the old men, who kept quieter about the war, may regain their credibility in the eyes of the young. But if new, younger, leaders emerge, they may not be as amenable as the old ones.

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Bagehot

Times are tight for Gordon

Apr 10th 2003
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The chancellor's options are narrowing, but it's not all bad news

IN ONE sense at least, Gordon Brown is still a lucky chancellor. Not only has the war been a useful scapegoat for deteriorating economic conditions, but its ending was also perfectly timed. For Saddam Hussein's regime to crumble at precisely the moment Mr Brown had chosen to deliver his seventh budget suggests that fortune has not entirely deserted the chancellor.

Which is just as well. Mr Brown's future now depends on his luck holding. This is not to criticise him for allowing borrowing to rise in the short term. The public finances are fairly healthy, so, for now, that is the safest option. And there is nothing eyebrow-raising about his deficits, assuming that his sums work out. But his apparent confidence in the buoyancy of future tax revenues is striking. He refuses to consider the possibility that there could be painful choices ahead.

Reckless though this looks, consider the alternative. In last year's budget, the government staked its future on two daring ideas. The first was that a once-in-a-generation boost to public-sector funding could transform the quality of services, especially education and the National Health Service. Moreover, people who would not previously have expected Labour to spend their money wisely were now willing to trust it.

The second idea, which followed on from the first, was that Labour so dominated the political landscape that it had changed the terms of trade on the issue of taxing and spending. Labour no longer needed to be on the defensive over how much it might raise tax. Instead, it was now the Tories' turn either to accept the government's agenda or to explain to voters how their plans to cut spending would not damage schools and hospitals. When, in last year's budget, Mr Brown announced a large rise in taxation by means of a delayed 10% increase in national-insurance contributions (NICs) to fund a “world class” health service, people may not have exactly stood and cheered, but his approval rating rose sharply.

Even though some of the more thoughtful Labour MPs, including Tony Blair, fretted that not enough had been done to reform the way services were provided, for most of the government's supporters last year's budget was a vindication. They did not enter politics to prove they could stick to Tory spending plans: they were there to build a public sector that would have made Labour's early dreamers proud. In many ways, it was a moment of triumph even sweeter than the two landslide election victories that Mr Blair had delivered to make it all possible. Even the prime minister, in a rare effort to catch the mood of his party, described Mr Brown's public spending gusher as “socialism in action”.

Since when, a few doubts have begun to intrude. Of these, the one that nags the most is the possibility that the NHS may be capable of absorbing huge sums of money without getting much better. Despite a 20% increase in health spending in the two years to 2001-02, there was only a 1.6% improvement in what is known in the jargon as “finished consultant episodes”. The time spent waiting for some operations has come down slightly, but the numbers on waiting lists have barely fallen.

Overall employment in the NHS is booming—witness the swelling public-sector recruitment supplement in the *Guardian* newspaper—but, predictably, it is taking time to train more nurses, while the shortage of doctors might not be fixed for a decade or more. Because Mr Brown elected to increase spending faster than capacity could grow to meet it, the opportunities for waste, and even fraud, are great.

Meanwhile, the tax hikes to pay for this are only now being felt. The national insurance rise kicked in only last weekend, while homeowners are also facing large rises in council tax from this month because of the additional spending obligations that have been heaped on local government. The shadow chancellor, Michael Howard, calculates that, as a consequence, a family with two workers on average earnings will be nearly £600 a year worse off. With the housing market faltering and higher contributions required to

maintain the value of pensions, a lot of people are suddenly beginning to feel poorer.

No wriggle room

The result is that even fervently pro-spending Labour MPs are reporting from their constituencies that the supposedly popular tax increases are not being borne quite as cheerfully as they had hoped. Some even fear that after years of ingenious “stealth” taxes, frozen allowances and this month's decidedly unstealthy grab for the wallets of the moderately prosperous, Mr Brown may have run out of road as far as any further tax rises are concerned. It's an intuition that is being confirmed by the latest opinion polls. There still may be majority support for the rise in NICs to “help pay for the NHS”, but in a YouGov poll last month, 70% nonetheless thought that the money would be wasted. Equally worrying for the government, only 29% were prepared to accept that taxes might have to go up further to pay for better services.

For now, Mr Brown is just about all right. But he has left himself almost no political wriggle room. Should those bright and breezy forecasts of his turn out less well than he hopes, he will have to face up to the difficult choices he has so far avoided. However, until he has something to show for it, he would be wise to eschew adding to an already weighty tax burden, while cutting back on his ambitious public-spending plans would, for him, be an unbearable humiliation.

No, if anything looks vulnerable, it is those fiscal rules the chancellor has set such store by. And if they go, so, probably, will the prospect of joining the euro any time soon. If it comes to it, the Eurosceptical chancellor might just find that embarrassment quite bearable. Perhaps this happy thought lies behind Mr Brown's seemingly irrational exuberance.

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Oil in Iraq

The people's oil

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AP

What should be done to ensure that Iraq's oil is managed truly in the interests of its newly liberated people?

Get article background

“IF AN oil tender is made by a legitimate government that can guarantee terms and conditions for the long term, we would certainly be interested.” Those unusually candid words, uttered this week by David O'Reilly, the boss of Chevron Texaco (an oil giant on whose board Condoleezza Rice, America's national security adviser, once served), seemed to confirm what conspiracy theorists have suspected: Big Oil cannot wait to get its hands on Iraq's oil reserves, said to be the world's second-biggest after Saudi Arabia's.

Already, the industry is abuzz over who will manage Iraqi oil in the short term: the United States, the United Nations or the Iraqi national oil company? There is lots of speculation too about opportunities for foreign firms, especially those from countries that participated in the fighting to oust Saddam Hussein. There are even suggestions—especially by free-market think-tanks, such as the Heritage Foundation—that Iraq's oil sector will be quickly privatised, at American insistence. Firms that hold contracts signed by the erstwhile dictator are getting nervous: Russia's Lukoil, which signed a deal to develop the giant West Qurna oilfield in 1997, this week vowed to fight any attempts to overturn its contracts—by impounding Iraqi tankers if necessary.

Yet America and Britain both made unequivocal promises long before war started that Iraq's oil belongs only to the Iraqi people, and that taking it played absolutely no part in the decision to go to war. In a joint statement on April 8th, George Bush and Tony Blair again made clear that Iraq's oil and other natural resources are “the patrimony of the people of Iraq, which should be used only for their benefit.”

The trouble is, deciding what is the best way to manage Iraq's oil in the interests of its people is far from straightforward—and some of the most promising options may involve creating profitable opportunities for foreign firms, including American and British oil companies, which would be bound to play badly with those disinclined to take Messrs Bush and Blair at their word. Cynics even questioned the speed with which the coalition acted (with some advice from Big Oil) to prevent the destruction of Iraq's oilfields. Action that protected the Iraqis' patrimony was portrayed as fighting a war according to the priorities of

the oil industry.

One conspiratorial forecast, at least, seems certain not to come true—which might quieten down the cynics sufficiently to let a proper debate ensue. It had been suggested that, having seized Iraq's oil, America would flood the market, lowering prices and destroying the *bête noire* of America's gas guzzlers, the OPEC cartel. Most oil-industry experts reckon that this would manifestly not be in the interests of the Iraqi people. But it is equally clear that this could not be done in any case—at least, not within the sort of time period in which it seems likely that Iraq will be governed by some external authority, be it the victorious military coalition or the UN.

Misrule and under-investment, combined with a decade of UN sanctions that restricted imports of spare parts, have left Iraq's oil industry in tatters. It would cost billions of dollars and take the best part of a year simply to return to pre-war export levels of 2.5m barrels per day (bpd). To reach 3.5m bpd, last seen nearly three decades ago, would take another $5 billion-7 billion and several years, reckons Cambridge Energy Research Associates.

As the comments by Chevron Texaco's Mr O'Reilly made clear, much will depend on how soon a legitimate government can be established in Iraq. But things would be tricky even if a democratic Iraqi government were ready to take office at once.

Such a government would have to find new people with industry expertise to run the Iraqi national oil company, replacing Saddam Hussein's cronies who were previously in charge. Billions of dollars are needed to repair damaged oil-industry infrastructure and raise output. There would be decisions to take about what role to allow foreign oil firms, and at what price—and whether to cancel contracts signed with foreign firms by the old regime. There would probably also be a debate about the proper relationship between the new government and the oil industry, including about the possible role and form of privatisation. Given the likely constraints on output for the foreseeable future and the pressing need to raise cash to rebuild the country, there would be tough decisions to take about whether to borrow using oil reserves as collateral, or even to sell them, either by securitising likely future revenues or direct to foreign oil firms.

That these issues will be even more complicated for any interim government is highlighted by the issue of whom to put in charge of the Iraqi national oil company, given that most experienced Iraqi oilmen are probably now unsuitable, if alive. It is easy to see why names such as Philip Carroll, a former boss of Royal Dutch/Shell's American subsidiary, are doing the rounds in Washington, DC—and equally easy to see why this generates cynicism.

Capital needs

As for raising money, private-sector oil firms frequently borrow by pledging their reserves as collateral. Some countries, including Mexico, have securitised expected revenue streams from their state-run oil firms. But Amy Jaffe, an energy expert at Rice University, Houston, reckons that in Iraq, depending on who pays for what, the sums involved may dwarf those that other borrowers have been able to raise from the capital markets: “The costs of occupation and reconstruction will be $100 billion to $200 billion, and the Bush administration couldn't get even Goldman Sachs to do a deal that size!”

An alternative may be to persuade foreign oil firms to put up capital in exchange for the right to oil reserves, either through production-sharing agreements or full ownership. In such circumstances, the highest prices are likely to be obtained by having an auction open to all. Alas, any restriction of bidders to, say, firms from countries that supported the war, would clearly not be in the interests of the Iraqi people. Equally, contracts signed under Saddam were not in the best interests of the Iraqi people, both because firms from countries that abided by UN sanctions could not bid and because the deals were driven by Saddam's private interests. There are strong grounds for voiding those contracts and starting the bidding again.

Would that be legal? Some analysts argue it would be, given that Saddam Hussein was a dictator and that some of the contracts held by Russian, Chinese and Indian firms appear to have been granted to curry political favour at the UN and perhaps stave off an invasion. Other experts insist that any such move would represent a clear violation of property rights akin to Fidel Castro's expropriation of American assets four decades ago.

Vahan Zanoyan of PFC Energy, a consultancy, offers a real-world counterpoint. “In the oil business,

sovereign governments can and sometimes do renege on oil contracts, which are always ultimately based on trust." Russian or Chinese firms could perhaps challenge Iraq or an American interim authority at the international civil court at The Hague, but that would merely guarantee that the companies would not see any oil or money for many years and probably never be able to work in Iraq again. He thinks that firms such as Russia's Lukoil, despite its current sabre-rattling, may ultimately decide to negotiate a settlement with a new regime, in order to salvage some value from their contracts, or perhaps sell their rights to American or British rivals.

Any decision by an interim government to sell Iraq's oil reserves, particularly as it would probably be to foreigners, would be hugely controversial and vulnerable to accusations of bad faith. If some other way of raising cash for rebuilding could be found—an IMF/World Bank loan with oil reserves as collateral, perhaps—that would surely be better. But there is one reason to fear leaving the ownership of the oil reserves to a new Iraqi government—namely, that its members would face an enormous temptation to expropriate them for their own advantage. There are strikingly few examples of countries that, having become wealthy thanks to their oil resources, share this wealth broadly across the population.

What to do to prevent this, and to what extent any interim government should try to persuade a new Iraqi government to pursue a particular course of action, or even present it with a done deal, is sure to provoke a lively debate.

Some reformers are likely to view Iraq as another opportunity to try mass privatisation, with shares in Iraqi oil given to every Iraqi. Perhaps they can improve on the failure of past mass privatisations, notably in Russia, when recipients of shares tended to sell them quickly at well below their true value. Others familiar with the failure of mass privatisations such as Russia's will argue that Iraq should avoid it at all costs, pointing instead to the likes of Norway, Colombia and Alaska, which created funds that hold oil revenues in trust for the people. In Alaska, for example, the state oil fund disburses roughly $8,000 each year to every family. Similar payouts would certainly provide Iraqis with hard proof that the oil is now theirs, not America's, not their new government's—and certainly not Saddam's.

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America's corporate scandals

The ex-bosses fight back

Apr 10th 2003
From The Economist print edition

Why is it taking so long to prosecute America's disgraced bosses?

ANOTHER week, another former finance chief at HealthSouth, an American health-care firm, pleads guilty to fraud. On April 8th Michael Martin, HealthSouth's chief financial officer in 1997-2000, confessed to his part in overstating the firm's profits by what investigators now think may be $2.5 billion. So far, eight other HealthSouth executives—including two other former finance chiefs—have also pleaded guilty. They allege that the firm's former boss, Richard Scrushy, personally instructed staff to plug gaps in profits with altered, or fictitious, accounting entries. Only Mr Scrushy maintains his innocence.

The capitulation at HealthSouth could not have come at a better time for prosecutors at the Department of Justice (DOJ), who had been feeling the heat for not delivering more quickly on their promises to put America's corporate wrongdoers in jail. Last year's “perp walks” and extravagantly worded indictments (the DOJ called the mess at Adelphia, a bust cable firm, “one of the largest and most egregious frauds ever perpetrated”) raised expectations of swift justice. Instead, prosecutors have seemed to inch forward achingly slowly. Samuel Waksal, ex-boss of ImClone, a biotech firm, has pleaded guilty to insider trading and tax evasion. But few other big fish have been skewered.

The trials of Dennis Kozlowski, former boss of Tyco, and Andrew Fastow, Enron's ex-finance chief, have both been delayed for several months. The prosecution of John Rigas and his two sons, who are accused of looting and fraud at Adelphia, will not start until next January. It is still not clear whether the government will find anything at all with which to charge Bernie Ebbers, WorldCom's former head, or Jeffrey Skilling and Kenneth Lay, the former bosses of Enron. This lack of progress, symbolised for one livid boss by sightings of Mr Kozlowski's luxurious antique sailing-boat at liberty in the waters of the Caribbean, is upsetting cleaner executives, who would like to see a few more bad apples in jail, if only to satisfy the public appetite for corporate punishment.

This week, prosecutors were touting the guilty pleas at HealthSouth as the result of new anti-fraud “shock-and-awe” tactics. In fact, any prosecution of Mr Scrushy (if he continues to deny guilt) would probably suffer the same sort of delays as the government's other big cases.

One reason is paperwork. In February, lawyers for Mr Fastow won an extra three months to sift through the 1,200 boxes of Enron documents and 2m electronic files which they say they must review to build their client's defence. Mr Rigas's lawyers—he has hired four law firms to defend himself—say that they have only had since last December to look through the 560 CD-ROMs (each containing 70,000 pages of Adelphia documents) that government prosecutors have had since last May.

Such efforts also suggest that the cases against some of these men are more nuanced than government prosecutors (and the press) have led the public to believe. Prosecutors, for instance, allege that Mr Rigas and his sons “looted Adelphia on a massive scale, using the company as the Rigas family's personal piggy bank.” Mr Rigas's lawyers say that they have documents which prove that the $3 billion of loans drawn down by the family (and for which the Rigas family and Adelphia were jointly liable) were fully approved by the board and used entirely for board-approved purposes. These were to buy bits of other cable companies and to buy Adelphia securities to maintain family control of the company. Meanwhile, the disclosure of these arrangements—which the Securities and Exchange Commission (SEC) is challenging in civil lawsuits—was fully approved by the firm's former auditors, Deloitte & Touche, says the Rigas camp.

Lawyers for Mr Kozlowski, who is alleged to have used company loans rather more liberally than Mr Rigas, to finance personal property purchases, lavish parties and so on, also maintain that these loans were fully approved by the board and the firm's auditors, PricewaterhouseCoopers. They also allege that subsequent lawsuits filed by Tyco against Mr Kozlowski (Adelphia is also suing the Rigas family) are

attempts to shift responsibility for the mess. Friends of Paul Allaire, a former boss of Xerox who is under SEC investigation, say he is convinced he did nothing wrong, and that the government forced the company to settle an investigation into its lease-accounting methods under the threat of bankruptcy, by prohibiting the firm from filing financial statements.

As for those responsible for Enron's downfall, although Mr Fastow faces 78 separate criminal charges (and potentially hundreds of years in prison), the government has yet to demonstrate convincingly that Enron broke the law. Indeed, a recent investigation by Congress into the firm's tax arrangements confessed (after expressing the requisite disgust at the firm's behaviour) to finding nothing illegal, as such. If only life were simpler.

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Mining

Deep down under

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If it goes ahead, a big takeover will make Xstrata into a global force

THERE is not exactly a rash of takeovers at present, so an agreed $3 billion cash deal was bound to catch the eye. The merging parties are Xstrata, a London-listed but Swiss-based mining group that floated last year with the intention of consolidating its way to global influence, and MIM Holdings, an Australian company with big copper and coking-coal assets. They announced their tie-up on April 7th. If three-quarters or more of MIM shareholders agree to sell, the combined firm will have a diversified metals-and-mining portfolio—and great potential.

Curiously, when it was announced, the case for selling was made by Leo Tutt, MIM's chairman. Where was Vince Gauci, the managing director, widely seen as the architect of an impressive turnaround since he took the job in 1999? A clearly embarrassed Mr Tutt said that Mr Gauci had dissented from the decision to accept Xstrata's cash, believing that the bid undervalues MIM. (It is now a common grouse of Australians that the market is woefully undervaluing their mining businesses.) Mr Gauci will set out the reasons for his dissent in a formal document to be sent to shareholders towards the end of this month.

There are reports that behind the scenes there has been a bitter battle between Mr Gauci and his board. But other than reiterate his valuation thesis, there does not seem to be much that Mr Gauci can say or do to influence the outcome. Xstrata's bid is clever, because it is in cash and because it is structured as a “scheme of arrangement”, a legal form that requires the support of only 75% of shareholders for a bid to succeed. Xstrata says the structure was needed so that its banks would promise to fund the deal (a rights issue is planned eventually to pay them back), but it was clearly influenced by the boardroom split to seek a relatively certain outcome.

Opportunistic? Sure, admits Mick Davis, boss of Xstrata, who was exploring two other potential targets before this one emerged. He reckons it is hard to fault a deal that is immediately earnings accretive and will increase Xstrata's geographic and product diversification. Xstrata will remain, for now, in the shadow of the industry's big three—BHP Billiton, Anglo American and Rio Tinto. But, once MIM has been integrated, Xstrata could bid for further assets. Mr Davis is certainly not lacking in ambition. The main obstacle to Xstrata's success is the possibility that a rival bidder offers more. That would strengthen Mr Gauci's argument—and precipitate a showdown down under.

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News Corporation

The missing link

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Rupert Murdoch finally bags DirecTV

IT WAS the crowning piece of news at the end of a great few weeks for Rupert Murdoch. News Corporation's announcement on April 9th of its $6.6 billion agreement to buy 34% of Hughes Electronics, a subsidiary of General Motors that runs DirecTV, America's biggest satellite-TV operation, was the deal he has been fixated by for years. The deal came a week after European regulators had approved the merger of his Italian pay-TV outfit, Stream, with Vivendi's rival Telepiu, to create Sky Italia. And just as cheering, Mr Murdoch has emerged from war in Iraq as king of 24-hour news, with his Fox News network ahead of AOL Time Warner's CNN in the American ratings, and Britain's Sky News ahead of BBC 24, its closest rival.

DirecTV was secured at a strikingly low price. Earlier this year, GM lost an offer worth $18 billion from EchoStar, America's second-biggest satellite-TV firm, after antitrust regulators blocked it. Mr Murdoch's bid is highly likely to pass muster; so his victory, after his first bid for DirecTV in 2001 was trumped by EchoStar at the last minute, only underlines the value of the wily media baron's waiting game.

Unlike such fallen stars of the media world as Vivendi's Jean-Marie Messier or Bertelsmann's Thomas Middelhoff, whose rush to grab pricey assets proved their undoing, Mr Murdoch is a patient predator. For nearly three years he has watched as rival buyers fell by the wayside. Like Liberty's John Malone, who himself backed away from bidding for DirecTV recently in order to support News Corp's bid, Mr Murdoch is an opportunist, undeterred by apparent defeat, and a shameless lobbyist. He was a tireless visitor to Washington, DC, ahead of the regulators' decision to block the EchoStar-DirecTV deal.

Mr Murdoch's waiting game also explains his willingness to tolerate losses in pursuit of a longer-term goal. After years of losses, Star TV, his Asian satellite-TV business, finally began to make a profit in the fourth quarter of 2002. BSkyB, Britain's leading pay-TV operator, which Mr Murdoch also controls, only recently started to make money again after years of losses related to its decision to give away digital set-top boxes as an investment in the technology. Mr Murdoch's bet in Italy rests on similar logic. While he will occupy his favourite position, that of de facto pay-TV monopolist, and will wring some cost savings from the merger, Sky Italia is expected to lose about $160m next year.

At DirecTV, Mr Murdoch will quickly install a fresh team to overhaul the operation. DirecTV may have over 11m American subscribers, but its operation there—which is at least profitable, unlike DirecTV's Latin American division—is underwhelming by Sky's standards. BSkyB's annual average revenue per subscriber, as of the third quarter of 2002, was £348 ($539); in the same period, DirecTV managed only $237. Sky's secret has been a mix of savvy marketing, the use of exclusive content (notably sport), and investment in cutting-edge technology to open up new interactive revenue streams.

DirecTV will be no simple Sky replica. Unlike Sky, it was not an early entrant to pay-TV, as the American market has long been dominated by cable. Unlike Sky, it is not the top pay-TV platform, but the third-biggest after AT&T Comcast and Time Warner Cable. Yet Mr Murdoch will transfer expertise from BSkyB to revive DirecTV. Chase Carey, a former News Corp hand who worked for Mr Murdoch on the deal, will run DirecTV. And Tony Ball, BSkyB's boss, may yet come in to run Mr Murdoch's global satellite-TV operations.

The logic of Mr Murdoch's vision of a global ring of satellite-TV operations, running from Asia via Europe to America and beamed into nearly 100m households, rests on the need to spread programming and hardware costs, as well as the benefit of sharing pay-TV expertise. Now Mr Murdoch has triumphantly slotted the glaringly missing American link into that chain, it is hard not to detect an imperialist edge to the ambition.

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Chinese television

Some Iraq, not much SARS

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China almost discovers that news is worth reporting, even by foreigners

AP

CHINA Central Television (CCTV), the country's main broadcaster, learnt a lesson on September 11th 2001. Controlled directly by the propaganda ministry, CCTV could not work out quickly enough what spin to give the terrorist attacks on America, and so ended up barely covering them at all. After this embarrassment, the government decided that CCTV should try to become relevant—and, ideally, commercially viable. So in recent weeks, CCTV has been interrupting its familiar gripping reports of Communist leaders cutting ribbons to show footage, apparently uncensored, of the war in Iraq.

But this is CCTV, and news must still pass the propaganda test. SARS, a new and mysterious form of pneumonia, is an example of news that failed to do so. The disease first appeared in November, and in China itself. But only last month, after the epidemic began spreading globally, did the government admit to having cases and allow sanitised media reports. A CCTV news programme on April 6th began with profiles of party cadres, but then ran four minutes of China's new prime minister visiting a disease-control centre and declaring that China had the epidemic completely under control.

This contrast between CCTV's coverage of the war and of SARS reflects a more fundamental schizophrenia. Some members of China's government would like to regard TV as they increasingly treat other industries: as a market and a business opportunity. Others want to keep their authoritarian grip on media content. The first group wants to open up to foreign broadcasters, the second to keep them out.

Some 340m Chinese households, with about 1.1 billion viewers, own a TV set. Some 92m subscribe to one of China's 4,000 state-owned cable stations, which charge only about $1 a month. This translates into quite a small advertising market—$2.7 billion this year, according to Media Partners Asia, a research firm—but one that is growing by more than 10% a year. CCTV pockets a third of these revenues.

For years, western media firms such as Rupert Murdoch's News Corp or AOL Time Warner have been currying favour with the Chinese regime in the hope of gaining access to its TV market. Mr Murdoch's son James, who runs Star TV, News Corp's Asian subsidiary, even went so far as publicly to condemn the Falun Gong, a spiritual movement, as a dangerous cult.

Whether such kowtowing pays off is debatable. In January, China did indeed permit three more foreign channels—one from Star TV, one from Phoenix, a Hong Kong firm in which Star has a stake, and one from Bloomberg—to join 27 others broadcasting into China. But not to the Chinese: only to the

residential compounds of expatriates and fancy hotels. True, an estimated 42m Chinese households illegally own satellite dishes, and students occasionally team up to rent hotel rooms to watch CNN, but this grey market does not translate into advertising dollars.

The one exception to this arrangement is Guangdong, a province next to Hong Kong which Beijing often uses for political experiments. Since last year, it has allowed local cable stations to pick up channels from Star, Phoenix and AOL Time Warner. The three know better than to air anything politically controversial.

Commercially, however, this deal is far from exciting. Almost all of China's cable stations make losses, and the local cadres who run them often pick up foreign signals illegally to boost viewer numbers. They then cut out foreign advertising and replace it with local spots. Guangdong's cable stations have been doing this. The new arrangements now give Star, Phoenix and Time Warner the privilege of paying the cable stations to stop stealing from them.

Moreover, market liberalisation may have little to do with the change. China's leaders complain that the foreign media are unfair in covering China. So they want their own coverage—such as CCTV's Party fun—aired abroad. News Corp and AOL Time Warner gained access to Guangdong only in return for agreeing to broadcast CCTV's programming in, respectively, Europe and America. So is China's TV market opening up? Given that it is “about ideology and propaganda,” said a Chinese media regulator in February, the market is “already quite open”. Enough said.

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McDonald's

Did somebody say a loss?

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Despite announcing a loss and a new strategy, McDonald's is still trying to act like the growth stock it once was, rather than the cash cow it is today

"THE world has changed. Our customers have changed. We have to change, too." Brave words from Jim Cantalupo, chairman and chief executive of McDonald's for the previous 100 days, who promised investors at a Wall Street meeting on April 7th that the world's biggest fast-food chain no longer wanted to be bigger than everybody else, just better.

It is a promise the company will struggle to keep. In January McDonald's announced its first quarterly loss since going public in 1965. Comparable store sales in America, stagnant for the past decade, have been falling for 12 months. McDonald's, once a byword for good service, has been ranked the worst company for customer satisfaction in America for nearly a decade—below even health insurers and banks. The group's share price has slumped from more than $48 in 1999, to hover around a ten-year low of $12.

Mr Cantalupo, a 28-year McDonald's veteran who was yanked from retirement in January to replace Jack Greenberg, the abruptly replaced previous boss, insists he can reverse all this in 12-18 months. At long last he is doing something about the fact that McDonald's has massively misallocated capital for decades. The group is slashing its capital spending this year by a third, to $1.2 billion. Net of closings, it will open 360 restaurants worldwide in 2003, compared with more than 1,000 last year and 1,700 a year in the 1990s. The firm is under threat of yet another rating downgrade. Yet, as well as repaying some debt, some of the money saved will be returned to shareholders, though the firm frustrated investors by refusing to say how much.

Even more damning, Mr Cantalupo and Charlie Bell, his number two and heir-apparent, spent much of their presentation promising improvements in the basics of restaurant management—cleanliness, service and staff productivity—just to keep customers coming back. Under Mr Greenberg, McDonald's did not even have a system for monitoring standards, so as to avoid trouble with franchisees. A grading system and "mystery shopper" policy are now in place, and the group promises to get tougher on its owner-operators.

The menu too has been a mess. It will be slimmed, so to speak. There will be fewer confusing meal choices and more healthier, premium products such as salads, yoghurts and sliced fruit. Although it has long denied that its food is linked to obesity, McDonald's, a firm that is all about image, has finally twigged that its brand is under threat from its unhealthy reputation. In a confusing attempt to be all things to all people (something Mr Cantalupo said he wants to avoid) the group plans to offer "champagne taste on a beer budget", with new premium-priced foods, even as it declares value "part of the brand heritage". Advertising and store ambience are getting an overhaul too; the group's classier French stores may be a model. Less classy is Mr Bell's idea to aim Ronald McDonald, the group mascot (and apparently the second most-recognised icon in America after Santa Claus) at young adults, a "key demographic" after children.

All this leaves many investors wondering whether McDonald's really "gets it", as Mr Cantalupo kept insisting in his presentation. With the rise of "fast casual" restaurants such as gourmet sandwich shops, the McDonald's offering looks increasingly outdated. The group's most recent genuine menu hit was the

introduction of Chicken McNuggets in 1983. Franchisees, used to 10-15% annual growth and fat margins, have seen their profits come under pressure and have been alienated by poorly executed initiatives from headquarters, such as the expensive new “Made for You” kitchens that they had to buy.

What difference at McDonald's?

Yet top management in Oak Brooks, Illinois, including Mats Lederhausen, the strategy director, and Michael Roberts, head of American operations, as well as Messrs Bell and Cantalupo, are all long-time insiders, shaped by the previous, out-of-date strategy. Mr Cantalupo, who masterminded the group's international expansion in the 1980s and 1990s “lacks the vision or stomach to make the necessary changes”, commented one analyst.

The top team's wooden presentation on April 7th, liberally doused with marketing clichés and soundbites about the importance of “people, product, place, price, promotion” and “improving focus”, only reinforced that impression. Above all, it is clear that Mr Cantalupo and his team still see McDonald's as a growth company, albeit one with more modest annual targets of a 3-5% increase in sales and a 6-7% rise in operating profits from 2005. The implication is that, after implementing the revitalisation plan, capital spending will be cranked up again and the aggressive restaurant-opening programme will resume.

They appear unwilling to acknowledge that McDonald's, rather like Coca-Cola or Disney, is these days a mature company in a much more competitive market that should be run for cash. That is certainly what many shareholders want. Bryan Knepper, of Columbia Management Group (FleetBoston's renamed asset-management arm), says he wants recompense for the underperforming share price: “I want them to give cash back to shareholders.” Another investor suggests that, with a yield of only 1.6%, McDonald's should double its 24-cent dividend, which costs it a mere $300m a year. A third muses that “my dream is that they pay a huge dividend and expand only with the incremental operating profit of existing stores. They need to earn the right to grow again.”

Ironically, Ray Kroc, who founded and then expanded McDonald's as much by buying and renting property as by selling hamburgers, has left the group a gold mine to exploit. Peter Oakes, an analyst at Merrill Lynch, notes that the group owns 75% of the buildings and 40% of the land at its 30,000 locations. He calculates that the land alone, which has a book value of $4 billion, would fetch $12 billion (before tax) today. That value could be exploited through a sale-and-leaseback programme.

McDonald's also admits to thinking about selling a controlling stake in its portfolio of “partner brands”, which includes such chains as Boston Market chicken, Chipotle burritos and Pret a Manger sandwiches. This portfolio is worth around $1 billion. The group could have been more draconian in cutting capital spending, as it needs only $600m-700m a year for maintenance. It could also, albeit more riskily, have slashed its marketing budget.

Add it all up and McDonald's could easily hand several billion dollars back to its investors. Given the looming danger of obesity litigation and a backlash against marketing “unhealthy” food to children, returning supersized lumps of money to shareholders now could come to look farsighted. Alas, it may take more change at the top to milk this particular cash cow.

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Software

Friend or foe?

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The rise of Linux is dividing the computer industry into winners and losers

Get article background

LARRY ELLISON, the boss of Oracle, the world's second-largest software firm, likes to make bold claims. Last week he was at it again, attacking his old foe, Microsoft, the world's biggest software company. Microsoft, he declared, risked being “wiped off the face of the earth” by Linux, the free, open-source operating system developed by Linus Torvalds, a Finnish programmer, and a team of enthusiasts. As always, Mr Ellison's prediction should be taken with a handful of salt. But it contains a germ of truth, because the rise of Linux is changing the dynamics of the computer business. Some of the industry's titans benefit from its advance, while others lose.

Reuters

Linus, friend of Larry?

The appeal of Linux is clear. It is free, unlike such rival operating systems as Microsoft's Windows and Sun's Solaris. And it runs on almost any computer, providing compatibility, flexibility and further cost savings. Linux is used mostly to run servers, the back-office machines that handle e-mail, web pages, file sharing, and printing. Several Linux boxes can also be “clustered” together to create cheaply a machine with the power of a supercomputer.

Linux has yet to have much impact in the highest echelons of business computing: telecoms-billing systems, airline-reservation systems, and so on. But it is advancing steadily. Once limited to dotcoms, it is now used by such firms as Merrill Lynch, Verizon and Boeing. “2001 was the year of interest, 2002 the year of pilot projects, and 2003 is the year of deployment,” says Avery Lyford of Linuxcare, whose software simplifies the adoption of Linux by big firms. A recent report by Gartner, a consultancy, says that “businesses are coming to regard Linux as a worthy alternative to Unix and Windows.”

The main loser (so far) as Linux advances is Sun Microsystems, one of the largest server vendors. Its Solaris software is generally deemed to be the most capable flavour of Unix, the family of powerful operating systems used in servers. But for many applications, Solaris is overkill, and Linux, a less capable flavour of Unix, is good enough. Many people who would once have bought expensive Sun boxes running Solaris are now running Linux on cheap, PC-like machines instead.

This has forced Sun to embrace the technology that threatens its existence. Last year, Sun launched its first Linux-based server. After several zigzags, it has now decided on its Linux strategy. As well as offering cheap boxes running Linux alongside its more powerful Solaris-based ones, Sun will include its server software with both Linux and Solaris, to make its Linux boxes more attractive and to allow users to “trade up” to Solaris. Even so, many in the industry believe that, thanks to Linux, Sun is doomed.

The clearest winner is IBM, closely followed by Hewlett-Packard (HP) and Dell, each of which has done well selling Linux servers. IBM embraced Linux in 1999, and now offers it across its entire range, from lowly PCs to mighty mainframes. Linux has also boosted IBM's mainframe business, since a single mainframe can be set up to behave like dozens of small Linux servers. Firms with mainframes have thus been able to scrap entire rooms full of Unix servers, such as those made by Sun.

Linux also provides something IBM has wanted for years: an operating system that unifies its otherwise baffling product lines. Indeed, notes Art Olbert, an ex-IBM employee now at Linuxcare, Linux strengthens

the hand of those firms that champion technological diversity, such as IBM and HP, and undermines firms that push their own technology at the expense of all others, such as Sun—and Microsoft.

Wiping Windows

So is Microsoft about to be destroyed by Linux? Not yet. Microsoft's influence stems from the dominance of its Windows operating system, which runs over 90% of the world's desktop computers. But as Windows becomes more powerful, it has been advancing into the server market, since PC-like servers running Windows are cheaper than Unix boxes. The problem for Microsoft is that Linux boxes are cheaper still. Microsoft disputes this, pointing to a company-funded study which found that over several years Linux servers were no cheaper to run than Windows servers, largely because Linux experts demand higher wages. But many companies, particularly those with Unix folk already on the payroll, have found that switching from Windows to Linux saves money.

Furthermore, Windows is the preferred target for computer viruses. Servers running Linux are generally more secure. Microsoft now offers a cheap version of its Windows Server software specifically for use on web servers, to compete better with Linux. It is also making the Windows source-code available to governments for scrutiny. Many governments like Linux because it can cut costs and avoid vendor lock-in, and because they see open-source software as more trustworthy.

The most likely outcome is that customers will face a choice between Linux, which is cheap and cheerful, and Windows, which offers more bells and whistles, is tightly integrated with other Microsoft products and is easier for unskilled staff to use, but costs more. In short, Microsoft will be not so much a loser from Linux as less of a winner. In the server market at least, Linux is providing Microsoft with some much-needed competition.

This explains Microsoft's strangest response to Linux: its doom-laden warnings that Linux and other open-source software will destroy the commercial industry entirely. According to Craig Mundie, Microsoft's chief technical officer, as the open-source movement grows, it will get better at producing free clones of commercial software. The best-known examples after Linux are Apache, an open-source web-server, and MySQL, an open-source database. Such products reduce the incentive for commercial firms to innovate; so the industry will stagnate and then collapse.

This echoes arguments made by drug firms against makers of generic drugs. (Never mind that innovation in software tends to occur in universities and start-ups, not big firms.) Microsoft is advancing it through a lobby group, the Initiative for Software Choice, hoping to dissuade governments from using open-source software. Steve Ballmer, the firm's chief executive, calls open-source software a “cancer”. Only in Mr Mundie's nightmare scenario would Linux and other open-source software wipe Microsoft from the face of the earth. Mr Ellison's prediction might then come true, but with a drawback: his own firm, Oracle, would be wiped out too.

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Face value

Corporate Governance Mom

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Nell Minow thinks that America's bosses still need better parenting

IN A recent speech, Nell Minow told a story that sums up her two careers. She once wrote an online advice column, as the “Movie Mom”. One parent wrote to say, “My two-and-a-half- year old knows how to work the VCR. Even when I tell her not to, she still does. What should I do?” Ms Minow replied sternly, “Someone has to be the grown-up, and you lose...If you can't make the rules in your house, you're going to have a much bigger problem than videos.” That day, she went on, she had come across an employment contract giving a chief executive below-market-price options worth $20m, plus free first-class travel for his family, mother included, to visit him each month. Global Crossing's contract was so “shockingly terrible” that it was like getting a letter from the board saying “Dear Corporate Governance Mom, I tell the CEO that pay and performance should be linked, but he says no. What should I do?” And she wrote back, “Someone has to be the grown-up, and you lose...”

This is a good time to be a corporate moralist. When she is not reviewing films for Yahoo!, Ms Minow's stock-in-trade is pointing out bad behaviour in the boardroom. Sharp, articulate and angry, she deplores the greed of chief executives and the spineless response of compensation committees, as editor of The Corporate Library, an online database of company information. Some of the reforms she has supported may soon become stockmarket listing rules. Does she see this as a moment of triumph?

Not yet. Even at the scandal-ridden companies of the past year, the clean-up team does not always seem to have learnt lessons, she points out. Tyco, for instance, has made some governance reforms, but it has refused to replace the audit firm that failed to uncover massive abuses by its former chief executive or to give up its Bermuda domicile, which insulates it from shareholder litigation and so genuine accountability. At WorldCom, where Michael Capellas was brought in to clean up the mess left by Bernie Ebbers, the bankruptcy court vetoed his proposed compensation package as “grossly excessive”.

One test will be what happens to executive compensation. If governance has improved, surely bosses' pay should mirror performance—and thus, like share prices and profits, be lower on average this year. In fact, an analysis by the Investor Responsibility Research Centre of the 2002 packages of 180 chief executives (none of them new recruits) from the 1,500 largest S&P companies finds that the median salary rose by 9%, the median cash bonus by 24% and the median value of awards of restricted stock by almost 20% over 2001 levels. The median number of share options granted rose by 7.5%, and both the value of options held and the median value of options exercised held steady.

True, these results mainly reflect policies set at the start of 2002, before public outrage against corporate excesses really got going. But there are ominous signs: at Sprint, the board is buying Gary Forsee from BellSouth for $14.5m in restricted stock and a guaranteed bonus—“my favourite oxymoron,” says Ms Minow, who reckons that boards still pay bosses big rewards with little regard for performance. “The less variability the candidate is willing to take on in the pay package, the less suitable he is for the job, especially in a turnaround situation,” she says. Boards are bad at saying no to chief executives, who in effect set their own pay. “The overwhelming advantage the CEO has in selecting ‘his’ directors” remains a formidable obstacle.

Where are the shareholders?

Still, there are hopeful signs. There will, she thinks, be more turnover in the boardroom in the next year than in the past ten—and “the new crowd will do better, or at least if they don't, they won't last long.” The Sarbanes-Oxley act does not alter much, she argues, but the listing rules that the New York Stock Exchange is proposing may do. The requirement that directors meet regularly without the presence of the chief executive will be immensely beneficial. She is also keen on a new Securities and Exchange Commission rule that will eventually require the disclosure of money managers' proxy votes and voting policies.

But government has limited power to bring about governance change. The answer, argues Ms Minow, lies in the market: the government's job ought to be to remove obstacles that prevent the market from working and stop shareholders exercising their power. Such a view is not surprising, given her background: she has worked since 1986 with Bob Monks, one of America's best-known champions of better corporate governance, setting up Institutional Shareholder Services, which advises big institutions on casting proxy votes. The Corporate Library has built up a wealth of data on executive pay and contracts, and a database of the myriad ways in which directors are connected, rather than independent. It is now establishing a rating system for good governance, to be launched soon, on the theory that directors will care about the stigma of a bad grade.

Maybe they will. Certainly, shareholders are more assertive at this year's annual meetings than they have been for a long time. Taking the lead, as ever, is CalPERS, California's state pension fund, which is urging General Electric's shareholders to demand that its executives' share options be performance-related. Shell's shareholders have threatened a revolt over boardroom pay. Shareholders at Hewlett-Packard's annual meeting kicked up a stink about a plan for generous severance packages for senior executives. And some technology companies are restricting the use of share options, in response to grumbles from investors.

Yet the worry is that, even after all the corporate scandals, so few shareholder resolutions are likely to succeed. Too many shareholders are content to let bosses remain largely unaccountable—the investing equivalent of leaving the kids in front of the TV while you go to the pub. If only more shareholders shared Ms Minow's robust approach to corporate parenting.

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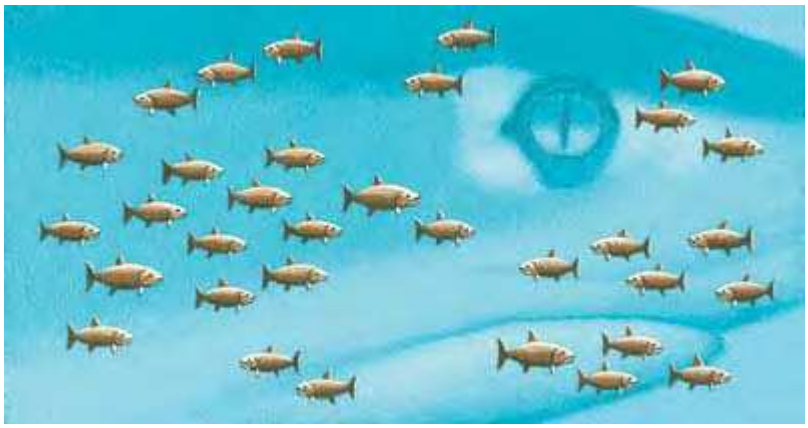
Economies after the war

The bigger threat still lurking

Apr 10th 2003 | WASHINGTON, DC
From The Economist print edition



There is plenty to worry about even after the conflict in Iraq is ended

STOCKMARKETS could not resist a brief cheer at the beginning of the week, as American troops reached the centre of Baghdad and a military victory in Iraq seemed near. On April 7th the main markets in America and Europe rose sharply. But then they had second thoughts. Next day, most of the gains were clawed back. Even as the uncertainty of war dissipated, investors could see more starkly that the outlook for the world economy remains far from cheery.

The good economic news is largely about what did not happen. In particular, Iraq's oilfields were not systematically torched. Nightmare scenarios had envisaged oil at $50 a barrel or more for months, easily enough to tip the global economy into recession. In fact, oil prices have fallen by more than 30% over the past month, down from a peak of nearly $40 a barrel in the weeks before the war to around $25 now. With coalition troops in control of the southern oilfields—which account for 60% of Iraq's production—a prolonged oil shock is no longer a worry.

Rather the contrary, in fact. With Venezuela's oil production returning to normal and Saudi Arabia still pumping furiously, the president of OPEC, the oil producers' cartel, fretted publicly this week about an oil glut and a price collapse. That seems unlikely though, since Iraq's oil is sure to be slow to come on stream.

The bad news is that the world economy was extremely weak when the Iraq war started. In all the world's big economies, the most recent statistics have shown little but gloom. America's manufacturing activity index saw its biggest monthly drop since November 2001, with employers eliminating 108,000 jobs in March, after shedding 357,000 in February. Although some of this drop was due to the call-up of military reservists, the numbers were worse than analysts had expected.

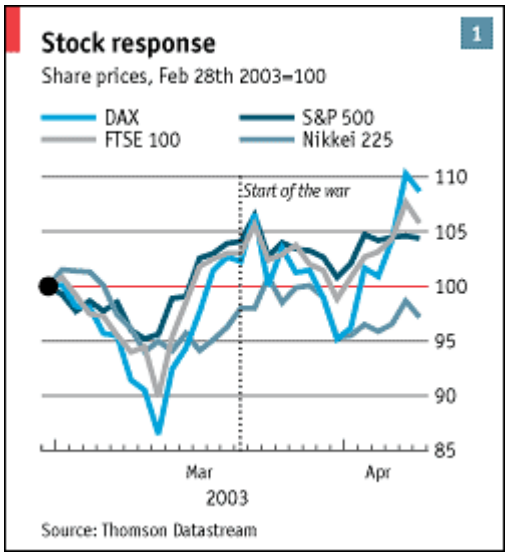
In Europe, the news has, if anything, been even grimmer. In Germany, the latest figures show slumping business confidence, falling industrial production and gloomy consumers. In France, consumer confidence in March fell to its lowest level since 1996. The European Commission said in its spring forecast this week that the prospects for the EU “remain bleak in the very short term.”

The optimists' case

Alan Greenspan, chairman of the Federal Reserve, has been a prominent optimist in America, arguing that once geopolitical uncertainties diminish, the economy is poised for renewed growth. At its March

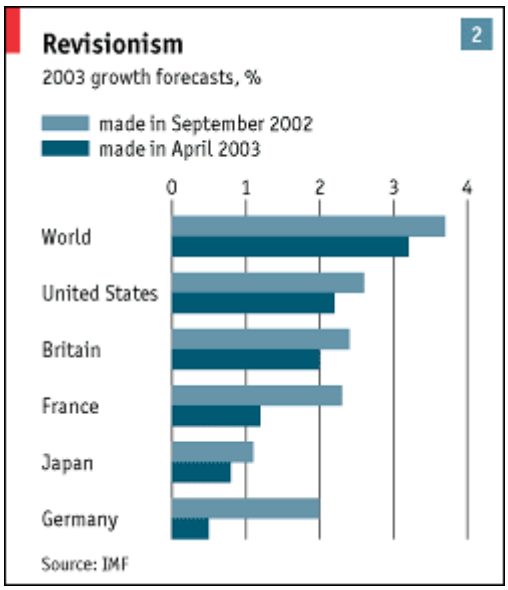
meeting, the Fed's monetary-policy committee decided not to cut interest rates, claiming that the hesitancy of the expansion “appears to owe importantly” to oil-price premiums and war jitters. Many analysts agree and expect a robust post-war rebound. The most bullish among them see America's annual GDP growth rate more than doubling, to 4.5%, in the second half of the year.

The financial markets lend the optimists some support. The Dow Jones Industrial Average has risen by more than 10% since the war began, while in Europe the gains have been even bigger (see chart 1). Put together higher share prices and lower oil prices, argue the optimists, and you have the right ingredients for a rebound. Many claim the early evidence is already at hand. Consumer confidence, for example, rose in America in late March.



But many others are not convinced. The International Monetary Fund, in its *World Economic Outlook* published on April 9th ahead of this weekend's meetings of G7 finance ministers and the IMF, is among them. Even with a quick victory in Iraq, the IMF expects below-trend GDP growth in the world's big economies for the rest of this year. America's GDP, it reckons, will rise by only 2.2% in 2003. Europe's performance will be even more lacklustre, while Japan's GDP will rise by a mere 0.8% (see chart 2). The European Commission's forecast is that growth in the euro area this year will be only 1%, dragged down by Germany's puny 0.4%.

Stephen Roach of Morgan Stanley, Wall Street's biggest bear, is more downbeat still. Even with a quick victory in Iraq, he reckons the world economy is on the brink of another recession. The pessimists' logic is simple. A quick military victory in Iraq will not be enough to assure a global recovery, because war-related jitters are not the only problem. A host of structural challenges—particularly the continued hangover of the 1990s bubble—leaves the world economy extraordinarily vulnerable. And the spread of the new disease SARS has only increased the risks, especially in Asia.



In the short term, the biggest test—for both pessimists and optimists—lies in America. Since 1995, the United States has accounted for around two-thirds of global growth. During both the 1990s boom and the subsequent bust, the country was the engine of the world economy.

America's corporate sector has made a massive adjustment since the bubble's collapse. After growing by an annual average of 10% in real terms between 1996 and 2000, investment fell by 5.5% a year in 2001 and 2002. Despite this dramatic belt-tightening, however, there are signs that more remains to be done. Traditionally, the corporate sector runs a small financial surplus at the end of a recession or early in a recovery, but American companies are still in deficit. And, despite falling investment, America's capacity utilisation is close to its record low. Both factors suggest that a sustained increase in investment could be some way off.

A bigger problem is America's consumers. They have adjusted far less than companies have to the bubble's collapse. Although the saving rate has risen, Americans have continued to spend by tapping into housing wealth through mortgage refinancing. With house prices and mortgage rates flatter, that process is slowing down.

If house prices were to wobble, the outlook would be far worse. An analysis in the *World Economic Outlook* points out that 40% of house-price booms are followed by busts, and that these busts cause twice as much economic damage as stockmarket collapses. Whether America has a property bubble is hotly disputed. Mr Greenspan suggests that it does not, arguing that there is no national housing market in America, and no sign of excess supply. Nonetheless, America's house prices, on average, have risen by 28% in real terms since 1996.

Offsetting the gloom is the fact that American economic policy has already cushioned the pain of post-

bubble adjustment, and looks likely to continue to do so. Short-term interest rates are 1.25% and, despite Mr Greenspan's optimism, nobody doubts that the Fed will do more if the economy falters. Fiscal policy has been dramatically loosened, with both lower taxes and higher spending. In 2002, federal fiscal stimulus was worth 2% of GDP.

Further stimulus is likely this year. The IMF expects America's budget deficit to be 4.6% of GDP, up from 3.6% in 2002, though some of this expansion is offset by tightening elsewhere as cash-strapped states are forced to balance their budgets. This week, both houses of Congress approved nearly $80 billion of extra spending for the war and homeland security. And, despite current wrangling in Congress, further tax cuts are also expected.

Europe's head in the sand

Europe faces many of the same problems as America, but with a much less accommodating economic policy. Conventional wisdom has long held that Europe would avoid most of America's post-bubble fall-out because far fewer Europeans own stocks. That sanguine attitude looks increasingly wrong.

Investment in Europe has been contracting since the middle of 2000, and Europe's bank-dominated financial system may be exacerbating the post-bubble hangover. In Germany especially, bank profits are weak, corporate insolvencies are surging, and falling equity prices have eroded banks' reserves. An IMF analysis suggests that these factors are heightening banks' risk aversion and undercutting the credit process, a tale that bears some similarity to Japan's. Add to this the fact that labour and product markets are still too rigid, and it is small wonder that the outlook for Europe is grim.

Moreover, policymakers are much less helpful than in America in easing the adjustment. Although Germany's government recently announced plans to cut job protection and improve work incentives, the overall pace of deregulation has been snail-like. With central bankers obsessed by fears of inflation, monetary loosening has been too little and too late. The European Central Bank cut rates to 2.5% in March, but failed to cut them again last week, despite a fresh barrage of gloomy figures. Fiscal policy is no better, hamstrung in the euro area by the strictures of the stability and growth pact. Germany, for instance, is cutting spending and raising taxes, even as its economy weakens.

European economies outside the euro area have been doing rather better than those within it. The commission is forecasting growth in 2003 of 2.2% for the British economy, which it says has performed “rather well” of late. Gordon Brown, the chancellor of the exchequer, produced a budget this week that promises a stimulatory rise in public borrowing over the next two years.

In Japan, policymakers' inability to deal with the consequences of a burst bubble is nothing new. But the outlook there is, if anything, deteriorating. The spurt at the end of 2002—when Japan's was one of the fastest-growing rich economies—has proved transitory. Domestic consumption has weakened sharply. After four consecutive years of falling prices, deflationary expectations are deeply entrenched.

A new, and unexpected, dollop of gloom comes from the rest of Asia. With overall GDP growth of 6% last year, Asia's economies, excluding Japan, were a rare bright spot. Unfortunately, the SARS outbreak could dull that growth this year. In Singapore and Hong Kong, the effect has already been dramatic. Hong Kong's retail sales, for instance, fell by 50% in March. Based on a 60% reduction in tourism over the next three months, and a return to normal thereafter, analysts at Morgan Stanley have revised down projections for Asian growth this year from 5% to 4.6%.

Add all these pieces together and the conclusion is clear. World economic growth this year will be modest at best and will be driven—yet again—by the engine of America. While helpful in the short term, this continued reliance on America is perhaps the biggest reason to fret. For it means that the American current-account deficit, already above 5% of GDP, will rise. A deficit of 7-8% of GDP within the next few years no longer looks outlandish.

An external deficit on that scale is not sustainable. Yet no other economic area looks capable of taking over from America as an engine of global growth. Until that changes, any reduction in America's deficit will spell a weaker world economy. Long after the war has ended, that threat will lurk in the background.

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September 11th compensation

The impossibility of making whole

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Is a fireman's life worth less than a banker's? America weighs compensation for victims of the September 11th 2001 attacks on New York and Washington

IN THE desperate days after the collapse of the World Trade Centre and the attack on the Pentagon, America's Congress enacted an emergency compensation plan. This would not only recompense victims of the attacks but also spare America's airlines litigation costs, likely far to exceed their insurance cover. The price tag is not yet known, but it will certainly run to billions of dollars. However, the plan has already raised many questions about how to compensate victims of such attacks. On April 14th it will be challenged in a federal court in lower Manhattan, not far from where the twin towers stood.

During the year that the victims' compensation fund has been in existence, it has settled 202 claims, averaging $1.4m, in respect of those who died. The largest payment has been $6m; the smallest, $250,000. Another 1,300 claims have been submitted, so that half the 3,100 deaths stemming from the catastrophe have been resolved or soon will be. By the measure of “normal” aeroplane crashes, which can take more than a decade to resolve, this is an extraordinary success.

Even so, the approach followed by the fund is controversial. The wide variation in payments has caused a predictable outcry. Why, ask newspaper editorials, should the lives of firefighters and police officers be worth less than those of bankers? Yet the challenges to the plan are being brought by the families of the wealthiest victims, whose lifetime earnings would have been colossal. The settlement, they say, does not give them enough.

The fund has tried to meld the notions of private tort law, used in common insurance cases, which seeks to “make victims whole” and to discourage future incidents by placing a cost on harm, with the quite different ideas that motivate government help, namely the financial needs of the recipient and the desire to minimise the disparity between rich and poor. Total payments are limited only by the discretion of the fund's administrator, a special arbitrator appointed by the government.

Traditionally, victims have no right to recover damages from the government, even if it is at fault. After other terrorist attacks—the bombings of a federal building in Oklahoma City, two American embassies in Africa and, in 1993, of the World Trade Centre itself—government played only a minimal role in trying to compensate the bereaved. Efforts to include these earlier events in the new fund gained momentum early last year, but have since faded, probably for good.

The treatment of the victims of September 11th is also quite different from that of soldiers in war. Members of America's armed forces pay $20 a month for life-insurance polices paying out $250,000 in the event of their deaths. Widows and widowers also receive $948 a month; each child gets $237. This indemnification has been steadily increased, reaching its present level last year, but still pales next to many of the World Trade Centre settlements.

There were any number of ways a September 11th compensation scheme could have been designed, notes George Priest, a professor at Yale Law School. In the circumstances there was a good argument for paying the same for each person who died, roughly in line with the policy used by the armed forces. In tort actions, something would be lost by doing this: damages that, in effect, place a high price on individual deaths can deter defendants from repeating their behaviour. In this instance, however, this is irrelevant. The American government, not the perpetrators of the attacks, is picking up the bill.

All things to all men

However, the September 11th compensation plan is also a substitute for lawsuits against airlines, the World Trade Centre's owners and others, such as providers of security at Boston's Logan airport, where some of the terrorists boarded. Given the state of these battered companies, it was a compelling offer for the claimants, as well as the government, which wanted to put litigation to rest.

As a result, the compensation plan has taken on the kind of liability-based calculations that would normally be used after an airline disaster. Congress authorised the use of the normal methodology in such cases, which takes into account economic damage (meaning the loss of future earnings) and non-economic damage (suffering, including the “loss of enjoyment of life”). Inevitably, such a scheme gives wealthier victims more than the poor. But whereas air-crash settlements are usually thrashed out in secrecy, anything involving September 11th has received minute scrutiny. The outrage that has followed is no surprise.

In response, the special arbitrator, Kenneth Feinberg, has limited settlements for richer victims. According to generally accepted formulae, these could have exceeded $10m, given the earnings of many working in the World Trade Centre. These same formulae could have pushed sums at the bottom end below $250,000, the minimum paid so far. Mr Feinberg has departed from these calculations by including in his figures a determination of “need”, a fuzzy concept that is neither part of tort law nor mentioned in the act that created the fund.

Feinberg's fine calculations

To produce his results, Mr Feinberg has been cagey about the formula he has used in high-end cases, and has seemed tight-fisted. Beneficiaries of the wealthiest victims have consequently been irate. All of the litigants against the plan are challenging impediments to higher settlements. Although only three cases have been filed, lawyers for many other victims are waiting until the first batch has been heard. A ruling is expected soon, allowing for an (inevitable) appeal and then a decision by December 21st, the deadline for participation in the fund.

As this litigation plays out, another lot has begun. Only people who were at the World Trade Centre within 12 hours of the plane crash and given medical care within 72 hours qualify for the fund. This excludes many rescue workers who spent days in the swirling fires and toxic fumes of the wrecked building and who now have a hard time breathing. Efforts have been made to extend the acceptance period, so far without success.

New York City has asked the federal government for retrospective insurance to cover these workers and has similarly come up empty. There are thought to be more than 1,000 claims. The workers are already suing the city. Maybe they should threaten to sue an airline too. In any case, will such people be better cared for if (heaven forbid) disaster strikes again?

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Punitive damages

Rule by numbers

Apr 10th 2003 | BOSTON
From The Economist print edition

A decision by the Supreme Court pleases companies, if not purists

America's Supreme Court struck a blow for common sense on April 7th. In throwing out a stratospheric punitive-damages award by a Utah court against an insurance company, the justices put an end to some of their nightmares about telephone-number jury verdicts. But some lawyers are not so happy. “Defensible or not,” lamented Laurence Tribe, a Harvard law professor who argued for the plaintiff before the Supreme Court, “the court's fascination, not to say obsession, with the ‘number theory' of punitive damages seems here to stay.”

Courts award punitive damages to punish and deter reprehensible conduct by defendants, over and above compensation to wounded plaintiffs. In this case, the original court found that State Farm, an insurer, had refused in bad faith to settle a claim when one of its policyholders, Curtis Campbell, killed somebody in a car accident. Mr Campbell won $1m in compensation—and $145m in punitive damages. The insurance company, said the court, had engaged in a “pattern of trickery and deceit”, even though the plaintiff's lawyers could find nobody else in Utah who had been similarly treated.

The Supreme Court sent the case back to Utah with clear instructions that the punitive damages should be cut to $1m or so. The decision also contained three guidelines for future cases. First, the court said that “a defendant should be punished for the conduct that harmed the plaintiff, not for being an unsavoury individual or business.” Second, defendants should not be subject to excessive fines just because they are rich. Third came Mr Tribe's “number theory”: the court noted that few awards that exceeded “a single-digit ratio between punitive and compensatory damages” would be constitutional.

These are honeyed words to the ears of many companies. Last year the top 50 punitive-damages awards totalled $32.6 billion, up from $3.2 billion in 2001. The ratio of punitive to compensatory damages also climbed: in 2001 the median punitive award was 2.3 times the median compensatory award; in 2002 it was 4.5 times.

As these data show, most punitive-damages awards meet the Supreme Court's single-digit guideline already. But a handful of headline-grabbing verdicts, such as a $290m award in California against Ford, are now likely to be toppled. Ted Boutrous, a lawyer representing Ford, believes the State Farm ruling requires that the award against Ford be cut to at most $5m, to match the compensatory damages awarded by the trial court.

Yet, although pleasing to corporate lawyers, the Supreme Court's guideline may restrict the ability of punitive-damages courts to promote economic efficiency. Economists such as Mitchell Polinsky, of Stanford Law School, and Steven Shavell, of Harvard Law School, argue that to deter harmful conduct, punitive damages should be equivalent to the amount of harm caused, multiplied by the inverse of the probability of detection. If, for example, a company is caught only every fifth time it pollutes a river, then when it is caught a jury fixing damages should multiply the value of harm done by five. If it awards less, the company will not be sufficiently deterred, because it does not face the full cost of its actions.

The Supreme Court's single-digit rule may thus weaken deterrence in cases where a defendant is likely to be caught less than once in ten times. Is this a problem in practice? Mr Shavell says it may not matter if, as he believes, “ratios larger than those in the single digits rarely fit the facts.” Other academics at the interstices of law and economics have conducted studies showing that juries cannot calculate effective deterrence: estimating the risk of detection is a pretty tall order. Mr Shavell argues that the single-digit rule could stop juries returning “completely irresponsible verdicts” based on moral intuitions about corporate wealth and sin.

Not everybody believes that the Supreme Court has closed the door on large verdicts, irresponsible or otherwise. Mr Tribe believes that juries may still impose hefty fines on defendants in egregious cases. Robert Peck of the Association of Trial Lawyers of America says that the single-digit guideline does not apply when plaintiffs have been bereaved or injured. If the courts agree with him, tobacco, asbestos, medical-malpractice and product-liability suits would all be unaffected. The gold mine may not be exhausted yet.

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Fund management in Britain

Unbundling

Apr 10th 2003
From The Economist print edition

Britain's regulator wants less cosiness between fund managers and brokers

WHEN Paul Myners resigned as head of Gartmore, a British fund manager, his wife was not happy. One of the joys of his job as chief executive had been trips to the opera at Glyndebourne. These were paid for by stockbrokers in the hope that Gartmore would channel business in their direction, a practice known as “softing”. But these annual expeditions came to an end after Mr Myners left Gartmore in order to become the Treasury's chief investigator into the murky workings of institutional fund management.

When Mr Myners published his review of institutional money-management in March 2001, only two pages of his bulky report discussed broking commissions. Yet they became the most hotly debated of his recommendations. He proposed an end to soft commissions, a relic of the old-school-tie days of the City of London. These include not only fripperies such as trips to the opera but also more professional inducements such as provision of research and Reuters or Bloomberg terminals.

Much more radically, Mr Myners recommended the introduction of an all-inclusive fee for fund management, instead of a basic 1-2% of assets under management, plus a fee supposedly covering trading. In reality, this second charge also covers such extras as research and access to analysts. A simple fee, said Mr Myners, would give fund managers an incentive to buy only what is strictly necessary.

The Financial Services Authority (FSA), Britain's regulator, agrees with Mr Myners that present practices hurt investors, but it stops short of endorsing all his recommendations. In a consultation paper published on April 7th, the regulator calls for soft commissions largely to cease. It also wants to make fund managers itemise services they buy on top of dealing, and to get them approved by clients.

At present, fund managers do not unbundle their charges in this way. According to FSA estimates, as much as 40% of the £2.3 billion ($3.5 billion) paid in commissions by fund managers to brokers in 2000 was spent on services other than the execution of trades. About £160m went on soft commissions back to the fund managers, of which more than half was spent on Reuters or Bloomberg terminals. As the cost was directly passed to clients, fund managers over-bought market services. OXERA, the consultancy that provided the research underpinning the FSA paper, estimates that a reduction in the consumption of market information by 3% would save British fund managers £2.8m per year.

The FSA shied away from proposing a ban on bundling, because there is some evidence that it has economic benefits. There can be economies of scope in bundled services, and transactions costs may be lower when services are bought from a single supplier. Yet the regulator concludes that these benefits are “unlikely to be realised, or may not be significant.”

Gartmore is already experimenting with unbundling. The fund manager struck deals with Merrill Lynch and Goldman Sachs last week whereby Gartmore will pay separately for everything but trading costs. “It took six months to put into place because we had to sort out tax, systems and legal questions,” says Barry Marshall, Gartmore's chief operating officer. Yet once up and running, such arrangements will be fairly easy to extend.

The FSA's recommendations, if implemented, could change the structure of Britain's fund-management industry. Mr Myners and Mr Marshall think six to ten market-makers executing trades would dominate the market. At the same time, independent research boutiques would proliferate. The losers could be smaller broking firms and fund managers, Reuters and Bloomberg—and, yes, opera venues. Mrs Myners, however, is once again a guest at Glyndebourne. Her husband has become one of its trustees.

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European clearing and settlement

The American dream

Apr 10th 2003
From The Economist print edition

Muddled plans to lower the cost of cross-border securities deals

THERE are, according to a report published in 2001, no fewer than 15 barriers to the efficient clearing and settling of securities across national boundaries in the European Union. That makes cross-border dealing in the EU expensive, and frustrates the dream of a pan-European capital market to rival America's.

European lawmakers are mulling new proposals from the Giovannini committee, which totted up those 15 barriers, to eliminate them over the next three years. This is ambitious stuff, because the barriers include mismatches in corporate law, taxes and information-technology platforms, as well as straight protection. To add to the complications, ten new EU members will join the fray next year.

The European Commission is expected to respond to the proposals in June. It may even issue a special clearing-and-settlement directive. Market practitioners are understandably sceptical about the likelihood of progress. Yet there is a chance, at least, of a shift in the polarised attitudes on opposing sides in a complex, distorted yet fiercely contested business.

Clearing and settlement is the unglamorous bit after equities or bonds are traded on an exchange. A clearing house ensures that buyer and seller have the cash and securities to do the deal; a securities depository settles the trade by moving the securities from one account to another. This may sound dull, but it is the stuff of monopoly.

Exchanges want to funnel as many trades as possible through their domestic clearing house and securities depositories—especially if they own them, as do the main stock exchanges in Germany, Italy and Spain. But they are being forced, by various regulatory threats, to provide more open access—so that, in theory, a securities trade in one EU country can be cleared in another and settled in a third at no greater cost to the customer than a domestically cleared and settled trade.

Last month the European Commission fingered Clearstream Banking Frankfurt, a settlement subsidiary of Deutsche Börse, which runs the Frankfurt stockmarket, for apparently discriminating against Euroclear, a Brussels-based, not-for-profit, securities depository, in settling registered equity trades. It seems that Clearstream's charges to Euroclear were on the high side.

Euroclear itself is under attack by a group of banks, which accuses it of competing unfairly for cross-border securities services. One of the banks, BNP Paribas, protests that its own dominant position in settling cross-border trades in French equities is being undercut by a cross-subsidised unit of Euroclear. This is forcing Euroclear to be more transparent about its intra-group business.

Deutsche Börse is a target because it has built a profitable domestic clearing-and-settlement “silo”. German securities traded on German exchanges must, by a quirk of German law, be settled in Germany. This may be beyond Deutsche Börse's control, but its record is still not good. Last year virt-x, a small London-based electronic exchange which trades Swiss and other European stocks, was refused access to Clearstream.

The (new) Giovannini report does not dare to join the debate over whether national silos are better or worse than the “horizontal” model favoured by the London Stock Exchange (LSE). In this system the exchange, clearing house and depository are separately owned. Preferably, the clearing house and depository are owned mutually by their users too. The debate is somewhat redundant, although long-frustrated merger talks between anti-silo London Clearing House and Paris-based Clearnet may hinge on whether Clearnet ceases to be part of a continental silo.

The Giovannini group recommends a mixture of market forces and regulation to create open access—whether to silos or horizontal systems. “It's a business plan, not a blueprint,” comments one analyst. But the timetable is unrealistic. Bear markets have driven investors back to home-based securities anyway. In such conditions, domestic silos are probably more efficient. Moreover, today's shrinking information-technology budgets will not stretch to developing pan-European compatibility.

Real savings, on the other hand, are being achieved by exchanges offering access to a central counterparty (CCP). The LSE has done this since 2001. Deutsche Börse started last month. Others will follow. CCPs allow trading houses to net all their trades in one place, reducing counterparty risk and the use of regulatory capital.

The dream of a pan-European CCP and settlement system, modelled on America's Depositary Trust and Clearing Corporation, is remote. But it is espoused by the LSE and by the European Parliament's Economic and Monetary Affairs Committee. This body has urged the commission to study the American example—imposed by regulators—to see whether “such an architecture could be set up in Europe.”

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South Korea's ambitions

Thinking big

Apr 10th 2003 | SEOUL
From The Economist print edition

Can Seoul become the financial centre of its boosters' dreams?

EPA

Looking for pluses in Seoul

FIVE years ago, with South Korea's economy in tatters, the idea that Seoul might have ambitions to become North-East Asia's top financial centre—the match, and more, of Shanghai or Tokyo—would have been risible. Now it no longer looks quite so daft. The financial wreckage has been cleared up remarkably swiftly and the economy is growing healthily again, by no less than 6% last year.

For the past 18 months, a group, now 67 strong, called the Seoul Financial Forum (SFF) has been working on plans to develop the South Korean capital as the region's financial hub. At first it received only polite acknowledgment from political leaders. Now the country's new president, Roh Moo-hyun, says that its dream is one of the top 12 goals of his administration. A presidential commission is to be set up to oversee the project.

The SFF argues that North-East Asia, despite accounting for more than one-fifth of global GDP, has no international financial centre to speak of. Hong Kong, it says, is too far south. So why not Seoul? Tucked between China and Japan, South Korea is a biggish economy, is strong in information technology and has a highly educated workforce. Most important, its financial sector has been thoroughly restructured since the financial crisis of 1997-98.

Domestic demand for sophisticated financial services is increasing, says the SFF, as the swelling group of 40- to 65-year-olds looks for ways to manage its savings. Furthermore, explains the SFF's chairman, Kim Ki-hwan, the South Korean financial industry is already substantially internationalised. In recent months foreigners have accounted for more than one-third of the market value of shares traded on the Seoul stockmarket.

The SFF thinks South Korea's main rival, Shanghai, is handicapped by communism. Fair point: China's financial system is in a terrible mess. The lack of press freedom, given the importance to financial markets of reliable information, is also a drawback. As for Tokyo, it is focused on Japan's needs rather than those of the rest of Asia. The stagnation of the national economy has weakened it.

South Korea's push is understandable. Its once-strong manufacturing sector is being fast overtaken by China's, and it is switching to more knowledge-based and service-oriented activities. A finance hub would suit its people's skills. Still, the task is a daunting one, especially because China has its own plans for Shanghai.

Seoul is not the first city to have such grand ideas. (Any hope that Frankfurt might rival London now looks a little silly.) The South Koreans have a lot of work to do if they are to realise their ambition. A survey last year of 1,700 managers in 71 Fortune 500 companies in Asia graded Seoul last among five cities (the others were Hong Kong, Shanghai, Singapore and Tokyo) in five of eight categories: globalisation status, foreign-exchange controls, labour-market flexibility, work permits and immigration, and prestige.

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Economics focus

Epidemics and economics

Apr 10th 2003
From The Economist print edition

Measuring the economic effects of disease is anything but straightforward

WHEN economic crisis hit one Asian country after another in 1997, it was soon dubbed "Asian flu". No wonder: the financial trouble spread like a virus, ravaging the weak and bringing IMF experts running to prescribe treatment. Yet economics and epidemics are linked by more than mere analogy. An illness first detected in China, Severe Acute Respiratory Syndrome (SARS), is causing analysts to cut growth forecasts for Asian economies. Joan Zheng of J.P. Morgan in Hong Kong predicts that the local economy will shrink in the first half of 2003, and grow by only 1.6% in the year. Before SARS, she expected 3.2%. SARS has also dampened the bank's forecasts for China and Singapore.

The main impact, so far, is on tourism. Few want to travel and risk catching SARS or being quarantined when they return. Consumer spending is also falling in Hong Kong and Singapore, as people shun public places such as department stores and restaurants. Many workers in Hong Kong have stayed at home, raising fears that output and exports will be affected. All this comes on top of the medical costs of treating victims and implementing disease controls, which are unknown as yet. The full cost of the outbreak will depend on how long it lasts and how far it spreads. If everything clears up by June, thinks Ms Zheng, the economic effects will not linger into next year. However, Raymond Foo, of BNP Paribas Peregrine in Hong Kong, believes they might, as investors come to see the city as a riskier place to do business.

In the rogues gallery of human pestilence, SARS is so far a minor character. Since the disease first surfaced in November, there have been more than 2,700 cases and 100 deaths, 90% of them in Asia. In both physical and economic terms, this is small beer compared with, say, AIDS. And it is tiny compared with the Black Death (bubonic plague), which killed about one-quarter of Europe's population in the 14th century. It is widely thought to have hastened the end of feudalism, by making labour scarce. That said, economic historians still argue about whether it made any appreciable difference to economic growth.

Such assessments are hard to make even when epidemics have run their course. Compared with other catastrophes, such as war, the economics of disease outbreaks is remarkably under-researched. Maureen Lewis, a human-development economist at the World Bank, points out that apparently obvious microeconomic effects might not show up in macroeconomic data, or might yield misleading results. Perversely, a disease that kills millions of children and old people, for instance, can produce a rise in GDP per head, if those aged 15-45, the most economically productive members of society, are still standing but there are fewer people in total to share the wealth.

A strange case of flu

Even when prime earners are killed, economies can recover. The 1918 flu epidemic, which killed 40m worldwide, may be a case in point—at any rate in America, where 675,000 perished. Elizabeth Brainerd, of Williams College, and Mark Siegler, of California State University, Sacramento, have looked at its effects on the growth of income per head in America between 1919 and 1930*. Surprisingly, they find that (after allowing for other factors) the states with the highest death rates grew fastest. It seems that these states suffered the most immediately after the epidemic—they had the highest business-failure rates between 1919 and 1921—but then caught up.

Evidence from AIDS, perhaps the most fearsome epidemic of our time, also shows how difficult it is to calculate the long-term economic effects of infectious outbreaks. One might expect to see a marked slowdown in the worst-hit countries, given its deadliness and its concentration among people in their

prime. Yet most studies to date have shown an annual loss of around 1% in GDP per head: serious, but not catastrophic. The explanation seems to be that, by killing large numbers of people, AIDS is reducing population pressure on existing land and capital, thus raising labour productivity.

However, Clive Bell and Hans Gersbach, both of the University of Heidelberg, and Shanta Devarajan of the World Bank challenge this view. They have been modelling the impact of AIDS on human capital, the stock of knowledge and abilities in a population that fuels long-term economic growth. AIDS affects human capital in three ways. First, it kills society's most productive people, young adults. Second, it kills parents, and so not only breaks the chain of transmission of knowledge through generations, but also reduces household incomes, so that children are less likely to go to school. In addition, the risk that children may become infected can reduce parents' interest in investing in their education. Third, less-educated children in turn will have less knowledge to pass on to their own offspring.

The researchers analyse this scenario in an “overlapping generations” model—a common theoretical device in which people's lives are divided into discrete periods, in this case childhood and adulthood. Plugging in parameters that roughly reflect today's South African economy, they estimate that, in the absence of AIDS, there would be modest economic growth and universal education within three generations. If nothing is done to combat the epidemic, however, the model predicts a complete economic collapse within four generations. To avoid this, the government needs to spend more both to treat the disease and to stop it spreading, and to keep children in school. AIDS has already eroded the tax base. Without action, it will weaken it further, even as the costs of care for the sick and orphaned balloon. The moral, for SARS as well as AIDS, is that in both economics and epidemics, prevention is better than cure.

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* “The Economic Effects of the 1918 Influenza Epidemic”. Centre for Economic Policy Research, February 2003.

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The structure of the universe

Seeing in the dark

Apr 10th 2003 | PHILADELPHIA
From The Economist print edition

A new computational model, unveiled at a meeting of the American Physical Society, finds that dark matter in the universe is highly organised

PHYSICISTS often say that the universe has a way of making one feel marginalised. The earth is not the centre of the solar system, the sun is not an especially remarkable star and the galaxy that both inhabit is one of many. But earth, sun, galaxy and, indeed, humanity are all special in one way: the stuff they are made of is rare in the universe. The familiar matter that forms atoms accounts for only about 4% of the matter and energy that is around.

Most of the rest is something called “dark energy”, which is making the universe expand at what appears to be an accelerating rate. Physicists have no idea what it is. About a quarter, though, is “dark matter”. Physicists do not know what this is, either. But, as Chung-Pei Ma of the University of California, Berkeley, told the American Physical Society, which held its annual meeting in Philadelphia this week, they do know where it is.

This is not the result of a sighting of any of the mellifluously named particles commonly thought to make up dark matter (neutralinos, sleptons and the like). Rather, it is the result of a series of precise computations. That might be cause for scepticism, but the physicists who filled Dr Ma's talk to overflowing seem convinced she is correct.

Dr Ma's calculation does not begin in a vacuum. Although dark matter, as its name suggests, cannot be seen directly, it does interact with “ordinary” matter through the force of gravity. The results of that interaction can be detected. Or, to put it more precisely, observations of the way the universe looks put constraints on the way that dark matter is distributed within it. That, in turn, restricts the theoreticians' room for manoeuvre as they try to work out what dark matter actually is.

Shadow galaxies

There are two main sources of constraint. The first is the cosmic microwave background (CMB)—radiation left over from the Big Bang—which was recently surveyed in unprecedented detail by an American satellite. “Hot dark matter”, so named because it moves at speeds close to the speed of light, can

account for only a small portion of the total—otherwise the CMB could not look as it does. This means that the recent discovery that neutrinos (notoriously elusive particles that move at almost the speed of light) have mass, is not as world-changing as it might at first have seemed.

The second source of constraint is observations of the modern universe. Galaxies rotate faster than could be explained if they consisted only of matter that can be seen through telescopes. They would fly apart were it not for the gravitational influence of dark matter. The universe is also expanding more slowly than observations could explain without dark matter.

And gravity not only shows that dark matter must be there. It also provides one of the explanations of why dark matter cannot be made of the same stuff—protons, neutrons and electrons—that visible matter is. And we know this explanation to be true because of something called gravitational lensing.

Gravitational lensing is a phenomenon that occurs because gravity, as Einstein showed, bends light. That means a heavy object such as a star, or even an entire galaxy, can act like a lens, bending light from things behind it to a focal point in front of it. Such gravitational lenses have been seen many times. Indeed, they are used by astronomers as natural telescopes, since they sometimes provide glimpses of the most distant objects yet observed. However, if the missing matter, even though dark, was of a normal type, many more gravitational lenses would be expected than have actually been observed. Because such lenses are rare, the missing matter must be of an exotic, but slow-moving type. Dr Ma's simulations fit this constraint to a T.

Dr Ma simulated, in great detail, large amounts of dark matter. She did it by breaking her computer “universe” into grains, in the way that a weather-forecasting program breaks the atmosphere into cells. The grains (or cells) are treated as homogenous units that interact with one another, so the accuracy of a model depends, among other things, on having cells that are as small as possible. Dark-matter simulations have been done in the past, but because sufficient computing power has not been available until recently, these earlier simulations had grains that were the size of thousands of galaxies. This, it turns out, means that they were not merely insufficiently detailed, but just plain wrong.

Dr Ma had a grain size that was as small as millions of times the size of the sun. When you are simulating the entire universe, this is quite small. She set the conditions in her model to simulate those thought to have pertained just after the Big Bang, pressed the “start” button, and let things evolve.

The dark matter settled into a pattern that resembles that of visible matter. It formed galaxies, and those galaxies formed chains billions of light-years across. Because the same results occurred using different computer programs, different parameters and, indeed, different computers, Dr Ma and her colleagues are confident that this is not a computational artefact, but rather a real effect.

Earlier theoretical predictions suggested that dark matter would merely form halos around normal galaxies. Dr Ma's results show that the structure is, in fact, much richer. Dark mini-galaxies, she says, abound. In an interesting mathematical coincidence, these mini-galaxies move about in the simulation obeying the same equation that Einstein used to explain the motion of a particle in a gas. Einstein's explanation of Brownian motion, as the zig-zag motion of particles suspended in gas is known, was the first experimental evidence of the existence of molecules. So dark matter, although certainly strange, ends up behaving in rather similar ways to everyday substances.

Attempts to account for the missing mass in the universe using normal matter supposed that MACHOs (Massive Compact Halo Objects) were the main component. These objects, small stars that failed to ignite, have been seen indirectly through gravitational lensing. But observations fall short of the large number of MACHOs required to account for the missing mass. Despite their name, MACHOs cannot be too big, or they would ignite as stars and no longer be dark.

On the other hand, exotic cold dark matter can gather in large clumps without catching fire. Because the hypothesised particles of which such matter would be made are very massive (which explains why they have not yet been detected in particle accelerators), exotic matter would also be likely to be denser than cold normal matter. Dr Ma's model predicts that individual clumps will be much less common, which is why they have not been directly seen by gravitational lensing. But experimental efforts to use gravitational lensing as an astronomical tool are improving, so visual confirmation of the computer simulation may not be far off. Gradually, then, physicists are starting to switch the lights on in the darkest corners of the universe.

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Sexual selection

The cost of showing off

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Bird populations with flashier males are at higher risk of extinction

CONSPICUOUS consumption has its price, at least in the avian world. For decades, biologists have presumed that the gaudy plumage sported by the males of many bird species must exact a toll. Indeed, one of the best theoretical explanations for the evolution of such plumage positively requires that it exact a toll: according to this model, the costs of gaudiness are an unfakeable signal to the opposite sex that an individual is otherwise fit and healthy. And there is a fair body of evidence to support the idea that males do, indeed, suffer for their art by leading more perilous and shorter lives.

A new twist to this tale has just been reported by Paul Doherty, of Colorado State University, and his colleagues. They have shown, in a paper recently published in the *Proceedings of the National Academy of Sciences*, that it is not only males who suffer the costs of luxuriant display. Instead, populations that have gaudy males seem to be at greater risk of local extinction than those of their dowdier cousins.

Dr Doherty studied how bird populations have changed in the continental United States and southern Canada over the course of 21 years, from 1975 to 1996. The data came from the North American Breeding Bird Survey (BBS), which is carried out each year by an army of volunteer bird-watchers who travel along predetermined routes, stopping at intervals and recording all the species that they can detect.

Dr Doherty and his team combed the data collected by the BBS to find out how populations of particular species had changed over the years. They picked 153 species in which males and females sport different-coloured plumage (in such cases the male is always the gaudier sex); and 185 species for which male and female plumage looks identical—at least, that is, to the human eye.

The apparent absence of a species from a site during the three minutes that an observer from the BBS spends recording data at each place does not necessarily mean that it is not really there. This is because more colourful birds may just be easier to spot than dull ones. Statistical techniques must be used to correct these problems and estimate how often a recorded absence from a site of a species previously found there is a genuine absence. But once the number-crunching has been done, it turns out that populations of species with gaudy males are 23% more likely to become extinct than are those of their more modestly feathered counterparts.

Exactly why this should be the case remains unclear. Although gaudy males are at individual risk, that need not necessarily harm a population's prospects—particularly if, as is often the case in such sexually dimorphic birds, the male contributes little to the actual raising of the young. One possibility is that the drop in genetic diversity that happens if most females are mating with the same handful of attractive males means that the whole population becomes vulnerable to new diseases.

The good news for bird-watchers is that local extinction caused in this way is generally temporary. Biology abhors a vacuum as much as physics, and the ecological niches vacated by such extinctions are filled by migrants from elsewhere. The bad news, Dr Doherty fears, is that as natural habitat becomes fragmented by human activity, that might not be so easy in future. Being dull may thus be a good response to human intervention.

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Wine

A corking idea?

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The French (naturally) have developed a new way of eliminating cork taint

BLAME it on Dom Pérignon. In his quest for a way to contain the bubbles produced during fermentation, and thus to make the wines from his monastery's vineyards in Champagne sparkle, he tried replacing traditional wooden bottle stoppers with new-fangled cork ones. Had his influence not been so vast, people might never have known the meaning of cork taint—an off taste usually caused by contaminated cork—that affects roughly one bottle in every two dozen.

The compound responsible for cork taint is called 2,4,6-trichloroanisole (TCA). It is created when chlorine (used for purposes such as bleaching) comes into contact with moulds in the cork. TCA, for those fortunate enough not to have come across it, tastes of wet newspaper. It is so potent that a tablespoon of it could taint an entire year's wine production in the United States, according to Christian Butzke, a former oenologist at the University of California, Davis, and now director of winemaking at Sakonnet Vineyards in Little Compton, Rhode Island.

Such potency makes the substance hard to detect by chemical analysis, which lacks the sensitivity of the nose. It makes it hard to get rid of, too. As Dr Butzke observes, cork producers come up with a “new method every year” to prevent or banish TCA. These methods have included coating cork, irradiating it and even microwaving it. Yet 20 years after TCA was isolated, winemakers still face the same problem. In the latest attempt to do something about it Sabaté Diosos, a French cork producer based in Paris, has teamed up with France's Atomic Energy Commission (CEA) to develop a system that removes the offending molecules using carbon dioxide (CO_2) in a process similar to that employed to decaffeinate coffee.

If suitably heated and pressurised, CO_2 becomes “supercritical”. That means it is able to penetrate things in the way that a gas does, yet dissolve things in the way that a liquid does. These attributes make it ideal for removing contaminants from porous substances such as cork. The trick, says Stéphane Sarrade, head of the CEA's arm of the collaboration, is to get the TCA out, but to leave in desirable compounds, such as those that lend cork its elasticity and permeability. After a lot of hard graft, the collaboration's researchers think they have come up with a “cork laundry” that has a winning combination of timing, temperature and pressure, though they are keeping the details secret. Sabaté Diosos is about to build a factory in Spain, which has extensive cork-oak forests, and wine bottled with laundered corks should hit the shelves early in 2005.

Which is fine for traditionalists. But there is the lingering question of whether modern bottlers might do better embracing new technology, in the way that Dom Pérignon did. Screw tops contain no cork, and thus cannot contaminate the wine with TCA. Traditionalists often react in horror to this idea. But a tradition is only an innovation that worked.

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Protons

Holey grail

Apr 10th 2003 | PHILADELPHIA
From The Economist print edition

A new experiment confirms that protons take a variety of different shapes

NEARLY 100 years ago, Ernest Rutherford acquired fame, and a Nobel prize, by shooting alpha particles (helium nuclei produced by radioactive decay) at gold foil. Unexpectedly, though, instead of passing through the gold foil, some of the particles bounced back. Rutherford realised that this is because atoms are made of a dense nucleus—later found to consist of protons and neutrons—surrounded by a diffuse cloud of orbiting electrons. The back scattering was caused by his “ammunition” bouncing off the nuclei.

Physicists who want to probe the structure of matter have since used more refined versions of Rutherford's method. The latest, meant to discover what shape protons are, was explained to the American Physical Society meeting in Philadelphia this week.

It has been known since the 1960s that protons are made of smaller particles called quarks and gluons. A proton contains three quarks. The gluons, as their name suggests, hold the quarks together. This being the world of quantum weirdness, the particles are also waves, so asking the question “what shape is a proton?” is not as straightforward as it may seem. Although the theory that describes the interaction of quarks and gluons is on a firm conceptual footing, it is so complicated in practice that it can take years to make a single calculation of something like the shape of a proton—even using the most powerful supercomputers. Instead physicists calculated the shape of the proton using many, very approximate, techniques. The simplest found the proton to be roughly spherical. But it would help the study of atomic nuclei to know what the correct shape of the proton is. Time, therefore, to do an actual experiment.

Vina Punjabi and her colleagues at the Thomas Jefferson National Accelerator Facility, in Virginia, used electrons, instead of alpha particles, to investigate. And, instead of gold foil, they threw electrons at liquid hydrogen. Since a hydrogen atom consists of a lone proton orbited by a lone electron, liquid hydrogen is a target-rich environment for those seeking to understand the structure of protons. Using a device called the Continuous Electron Beam Accelerator Facility (CEBAF), the researchers shot a stream of high-speed electrons into their liquid hydrogen, and studied the way that the electrons scattered off the quarks inside the protons.

This sort of thing had been done before, with limited success. But the CEBAF has two features that allow far more precise results. First, it has a much higher “luminosity” than previous experiments—meaning that many more electrons are shot at the protons. Second, the electrons it produces all spin in the same direction. This allows much more precise data to be gathered.

And the result? Sometimes protons do, indeed, resemble spheres. But they are constantly changing shape, so they frequently look more like peanuts, or even doughnuts. For nuclear physicists, this is a particularly tasty finding.

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About sponsorship

Evolutionary biology

The generation game

Apr 10th 2003
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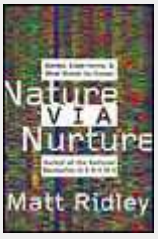
A new book travels to the frontiers of science in an attempt to resolve the ongoing quarrel over genetics and environment

ARE human personalities in all their variety—mad, bad, brilliant, extrovert or depressive—essentially the result of nature, of the genes we inherit from our parents? Or are we made by the worlds—social, economic and familial—into which we are born? According to Matt Ridley, this is a question you should not ask. Nature and nurture collaborate; they are partners, not competitors. Every human characteristic depends both on the genetic package we inherit and on the world into which we are born. No gene by itself makes anything. No environment makes a human mind without the collaboration of human genes packaged into a human egg.

So far, so good. But the reality is that despite, or even because of, considerable confusion and ignorance (and goodness knows there has been plenty of both), the nature-versus-nurture debate continues to burn in every field in which human biology bumps up against the study of human social life. It rages over issues ranging from the origin of our most distinctively human capacities—language, trade, technology—to the causes of specific diseases.

The debate has persisted, despite repeated attempts to bury it, because behind the apparent consensus there continue to be important and sometimes politically charged differences. And many of these differences are still hard to adjudicate.

Nature via Nurture: Genes, Experience and What Makes Us Human
By Matt Ridley



HarperCollins; 336 pages; $25.95.
Fourth Estate; £18.99

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Mr Ridley discusses David Buss's work on cross-cultural universals of male and female sexual preference. In case granny has not already told you, men place more weight on youth and beauty; women more weight on wealth. Some researchers have questioned these results but, on the whole, they hold true across different cultures. At the same time, the difference between men and women is not always huge and there exist considerable differences within the same sex, and even within the same culture. On most criteria, the curves for the two sexes overlap: women care more about their partner's resources, on average, than men. But it is far from true that all men, or all women, bring the same criteria with the same weights to the marketplace of sexual choice. Thus there will also be men who care more about

wealth. If this is the case, does the information as a whole show the extensive shaping of sexual choice by natural selection acting differently on men and on women? Or does it show the importance of individual histories of development? A more plausible explanation may be that we still cannot predict with any degree of certainty, for example, just how plastic male sexual taste may be over the full range of human social possibility?

Another issue that interests Mr Ridley, a former science editor of *The Economist*, is the effect of variation. Would a small difference in the dose of genes you got, or a small difference in your circumstances, make a significant difference to your mind or personality? It depends, of course, on which genes and which circumstances. One continuing theme in “Nature via Nurture” is that although environments matter, within broad limits, differences between environments do not matter much. Small genetic differences quite often have predictable and significant effects. Small environmental differences often do not. So long as the world—in this case the family and its structure—is not too aberrant, most predictable phenotypic differences will be the result of genetic differences, sometimes quite small ones, not environmental differences. Twins reared apart resemble one another in an impressively wide range of personality characteristics, rather than resembling other children from the same rearing environment.

Mr Ridley accepts that this pattern is not universal: he discusses a study on criminal behaviour, which may show that some criminality might be the result of the confluence of genetic and environmental bad luck. But despite such examples, the idea that small genetic differences have more of an effect than small environmental differences comes up again and again. It does so in his discussion of IQ, of the development of personality traits, language and socialisation.

“Nature via Nurture” is a tour through the cutting-edge science on human development and human evolution. It is also a bet that variation in genetic endowment typically matters more than variation in family and social circumstances. Although he claims to want to reconcile the naturists with the nurturists, the author's heart is pretty obviously with nature and he is at least as much a warrior as a peacemaker.

The political implications of Mr Ridley's bet—on education and the law, to cite two examples—may be huge, though its prospects are harder to assess. One of the book's strengths is that the science he examines is so new. That also makes it far from bankable. In some instances an opposing view to Mr Ridley's will have the upper hand: for example, Frank Sulloway's “Born to Rebel” (Vintage, 1997) which shows the effects on personality of birth order within family structure.

“Nature via Nurture” will not bring peace nor will it end the debates about human nature between those who look to biology and those who prefer the social sciences. In his plunge into the fray, however, Matt Ridley offers an excellent view of the battlefield, and characteristically he prefers to ride in the front tank rather than the UN observer's chopper.

Nature via Nurture: Genes, Experience and What Makes Us Human.
By Matt Ridley.
HarperCollins; 336 pages; $25.95.
Fourth Estate; £18.99

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About sponsorship

Transatlantic relations

Texas v Paris, the prequel

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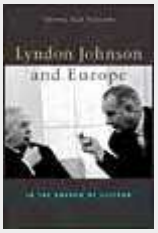
THE dead cannot defend themselves; nor can they commit new errors: two reasons why they make perfect fodder for historians who want to praise what they might have done had they lived longer or in better times.

Lyndon Johnson makes an unlikely candidate for such speculation, serving more often as a study in failed promise. When he unexpectedly became president in 1963, he brought to the job big hopes and vast expertise in domestic politics. A year later, he won the largest popular vote ever in a presidential election. By the end of his term, virtually the only podia from which he could deliver speeches without being heckled were on military bases, and he had to abandon all hope of re-election. History has not redeemed him either; Robert Dallek and Robert Caro, his main biographers, portray him as a scheming man who may also have been clinically paranoid.

Lyndon Johnson and Europe: In the Shadow of Vietnam
By Thomas Alan Schwartz



Harvard University Press; 352 pages; $29.95 and £19.95

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Now Thomas Schwartz, a professor of history at Vanderbilt University in Tennessee, seeks to defend LBJ by arguing that his foreign policy looks much better when taken out of the “shadow of Vietnam”. In Mr Schwartz's view, Johnson did a praiseworthy job of managing relations with Europe. He kept NATO functioning despite French challenges, promoted modernisation of the outdated international gold-based financial order and made significant advances in arms control, in particular by getting Moscow to agree to the Nuclear Non-Proliferation Treaty.

Mr Schwartz cites the 1995 decision to extend this treaty indefinitely as a ringing endorsement of its success. His book provides a corrective to the notion that Johnson's foreign policy consisted only of Vietnam, though it did consist largely of Vietnam. The author's decision hardly to mention the war at all gives his account the aspect of one hand clapping, and undermines its ability to convince. But if Mr Schwartz does not rehabilitate Johnson, he succeeds brilliantly in showing that when it comes to Franco-American relations, it is a case of *plus ça change*.

Exactly 40 years ago, Charles de Gaulle withdrew his Channel and Atlantic fleets from NATO. He subsequently ordered all American soldiers to leave France—prompting one pundit to ask if he meant the ones in military cemeteries as well—and he tried to drain American goldreserves by trading dollars for gold.

Mr Schwartz's book abounds in startling anecdotes. The French leader remarks that he rather likes the American president because “he doesn't even take the trouble to pretend that he's thinking.” He also complains to his former German counterpart how “absolutely intolerable” it is for Europe to be dependent on America and its “accidental president”. The confidants here are de Gaulle and Konrad Adenauer, and their ghosts still seem to commandattention at the Elysée Palace.

In Mr Schwartz's hands, LBJ provides an admirable example of the way that a president from Texas restrained himself and his subordinates from attacking Paris politically, despite enormous tension. Johnson did so because he believed in the importance of maintaining transatlantic unity in the face of global threats—a useful lesson from beyond the grave.

Lyndon Johnson and Europe: In the Shadow of Vietnam.
By Thomas Alan Schwartz.
Harvard University Press; 352 pages; $29.95 and £19.95

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About sponsorship

Composers

Lovely moments

Apr 10th 2003
From The Economist print edition

GIOACHINO ROSSINI was 76 when he died in France in 1868, yet nearly four decades had elapsed since the premier of his last opera, “William Tell”. But such was the esteem in which Rossini was held that 4,000 people attended his funeral and Emperor Napoleon III agreed to foot the bill.

Rossini
By Gaia Servadio

Carroll & Graf; 320 pages; $26.
Constable & Robinson; £20

Buy it at
Amazon.com
Amazon.co.uk

Rossini was the most significant innovator in Italian opera—without him there would have been no career for Bellini, Donizetti or even Verdi. However, Gaia Servadio's biography does not set out to be a study of Rossini's music, rather it tells the story of his life within the context of the political and artistic upheavals of his time.

Ms Servadio divides Rossini's life into five acts, as if it were a drama, and she has had access to a large number of hitherto unknown letters from Rossini to his parents and his first wife, the mezzo-soprano Isabella Colbran, for whom he composed “Armida”, “La Donna del Lago” and “Semiramide”. These letters give an intimate feel to the narrative, but the more original structure of the book comes from Ms Servadio's way of showing how Rossini is the link between the age of Beethoven and that of Wagner. Rossini met them both. Beethoven told him, “Il Barbiere di Siviglia...will be played as long as Italian opera exists.” It is often believed that Rossini stopped composing after 1830, but there are many late songs, piano pieces, cantatas and two contrasting sacred works, the large-scale “Stabat Mater” and the forward-looking “Petite Messe Solennelle”.

Gaia Servadio tells Rossini's story well, though the book suffers by not having a list of his compositions; even the titles of his operas are not gathered in the index. As he grew older, Rossini became increasingly pessimistic about the future of music, and in 1852 he wrote: “The head will conquer the heart: science will lead to the ruin of the arts; and under a deluge of notes, what is called instrumental music will be the tomb of the voice and of feeling.”

He was wrong about himself, though. While much of his work was neglected in the century after his death, “Il Barbiere di Siviglia” did prevent Rossini from being completely forgotten, just as Beethoven had predicted. In the last 30 years, his music has enjoyed a veritable renaissance, principally through the opera festival at his home town, Pesaro, and Ms Servadio's book is a helpful contemporary addition that rounds out his life.

Rossini.
By Gaia Servadio.
Carroll & Graf; 320 pages; $26.
Constable & Robinson; £20

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New fiction

Lying Thomas raises doubts

Apr 10th 2003
From The Economist print edition

THOMAS BUNTING, the narrator of James Wood's first novel, is a character locked in perpetual adolescence. Seven years into his unfinishable PhD, he seems as averse to washing as he is to adult responsibility, though somehow he has managed to meet and marry an impeccably mannered pianist, Jane.

Bunting's rebelliousness towards her is matched only by the inner battle he is waging against paternal authority, in the shape not only of his father, an Anglican vicar, but also of God himself. Escaping from the work he ought to be doing, he spends his time compiling a commonplace book of quotations from philosophers to support his own recalcitrant atheism. This he calls “The Book Against God”. The final result of his labours, we are given to believe, is the story of his life contained in this novel.

Yet Bunting is also a compulsive liar, who has spent years training himself in the art of deceit for the sense it gives him of power over others. Why should we, as readers, believe anything he tells us? Among the many ironies of this novel, the suggestion that Bunting could sustain 24 chapters of professionally executed prose, and succeed in getting them published seems really quite preposterous. But is it?

The Book Against God
By James Wood

Farrar, Straus & Giroux; 272 pages; $23.
Jonathan Cape; £12.99

Buy it at
Amazon.com
Amazon.co.uk

Mr Wood has created an unsettling narrator about whom he himself seems undecided. There are odd moments of honesty, brief glimpses of a better self, but these are regularly thrown into doubt, sometimes poignantly so. Listening to a recording of Sviatoslav Richter playing Beethoven, Bunting tells his wife he can hear the sound of the pianist breathing above the music—a moving epiphany of humanity and compassion. The trouble is, she cannot hear it and she does not believe him. Bunting is a man who feels the world misunderstands him and turns this into a self-fulfilling prophecy.

In the small world of literary reviewing, Mr Wood is well known for his unsparing critiques of other people's books, so there is an element of poacher turned gamekeeper about his foray into fiction writing. Some critics are bound to take their revenge, while others will laud his novel to the skies. How good is it really? The answer is that it is good enough. It is not a masterpiece, but rather a work of skilful craftsmanship, which teasingly engages and disengages one's sympathies but leaves the reader with curiously mixed feelings.

The Book Against God.
By James Wood.
Farrar, Straus & Giroux; 272 pages; $23.
Jonathan Cape; £12.99

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About sponsorship

Charles Saatchi's art gallery

Hollow laughs

Apr 10th 2003
From The Economist print edition

The adman bets on the beauty of beasts

ON A recent tour of London's new Saatchi Gallery, which opens on April 17th, a guide pointed out the features of Ken Livingstone's former headquarters on the south bank of the River Thames. County Hall is where Charles Saatchi, an advertising tycoon and go-kart racer, has installed his collection of contemporary art. “When we first moved in,” gushed the guide, pointing up to the ceiling of the Pantheon-shaped central hall, “we had to clear 50 dead pigeons out of that light fixture.” Why ever did they bother? Wouldn't the deceased birds have enriched the collection, taking their place in this pickled menagerie alongside the cows, pigs and rats, not to mention the shark?

Mr Saatchi is, of course, famous for collecting Britart: the work of the now not-so-young British artists who came of age in the late 1980s and early 1990s with neo-conceptual, shock-horror installations that parroted Marcel Duchamp and claimed that art was whatever the artists said it was. In the case of Damien Hirst, art was a dead shark in a tank; Sarah Lucas's “Au Naturel” contained a mattress adorned by melons, oranges and a cucumber; for Tracey Emin it was an unmade bed. Mr Saatchi paid large sums for all of this and, adman to the bones, attracted enormous publicity, showing Mr Hirst's shark at his original gallery in north London and later exhibiting the shartist and his mates in “Sensation”, a group retrospective at the Royal Academy in 1997, and provoking one visitor to throw eggs at the paintings.

At the time, they said it was all so radical. Britart's fans claimed that it made contemporary art popular in Britain for the first time. Now it just looks old. The shark in particular could use some botox. The dead cow head being eaten by flies immolating themselves against an electric zapper leaks its odour into Mr Livingstone's one-time panelled dining room. Perhaps Mr Saatchi, a known prankster, finds this funny. Perhaps he is sending up the notion of heritage, preserving his own in aspic, rather like Miss Havisham's wedding banquet, except that most of the bugs here are dead. There is little sense of life or young art in the building—only one tiny gallery shows the work of a few new artists Mr Saatchi claims to be launching. Meanwhile, some exquisite paintings by older, less sensationalist artists such as Peter Doig and Paula Rego hang oddly and rather forlornly in the corners.

Mr Saatchi hopes his collection will draw in 750,000 people a year. But whether visitors to local venues, such as the nearby London Aquarium, will fork out £8.50 ($13) to see this art depends on whether they like their fish fresh or frozen. Given that a McDonald's and a Starbucks flank the collection, Mr Saatchi, the king of packaging, might be in luck. Don't count on it, though.

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About sponsorship

English language

Heavy lettering

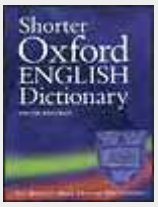
Apr 10th 2003
From The Economist print edition

The new, two-volume "Shorter Oxford English Dictionary" is reliable, comprehensive, easy to use—and enormous fun

EXHAUSTED by 24-hour newzak, anxious about asymmetrical warfare? Due for regime change after too many mochaccinos now those churidars don't fit? These are just four of roughly 3,500 new entries that dictionary-makers in Oxford have licensed as part of standard English. Browsing in their latest verbal treasurehouse is not only a welcome escape. At around seven pounds a volume, it's also good for those pecs. Churidars, by the way, are tight trousers, one of many Indian words that have found their way into English.

In essence the new Shorter Oxford is an abridgement of the revised 20-volume"Oxford English Dictionary" and its supplements, which was published by Oxford University Press (OUP) in 1989. That work reflected not just an immense labour of updating, but also the adoption of a more inclusive view of the dictionary-maker's task than had guided earlier editors. Four years later, OUP brought out a masterly condensation, the fourth edition of the Shorter Oxford. In its brief life, this was probably the best two-volume dictionary of English. The fifth, which now replaces that 1993 dictionary, has all its strengths and some more of its own, but one or two minor faults as well.

Shorter Oxford English Dictionary (Fifth Edition)
Edited by William Trumble and Angus Stevenson



Oxford University Press; 3793 pages; $150 and £95

Buy it at
Amazon.com
Amazon.co.uk

The most immediately noticeable difference is a freer and friendlier layout. Quotations are highlighted in grey, making for an easier read. As before, the style of the definitions—there are more than 500,000 of them—is pointed and crisp. Some of the best have the snap of a good aphorism. Historical principles combine with up-to-dateness. Every entry gives an etymology. For common or important words, the editors have sought the earliest written use and traced later shifts in meaning by way of published citations.

This historical approach, for which the Oxford English dictionaries are famous, makes some readers smell dust. But this is also a remarkably sharp-eared guide to the vocabulary of living English. And not just British English: spelling aside, the Shorter Oxford is thoroughly American as well. Nor are words from Asia and Africa ignored. The technical and scientific range of this dictionary is daunting.

The publishers claim that the new Shorter Oxford covers a third of the content of the 20-volume work in a tenth of the size. Squeezing all that in has come at a price. Unlike in the big OED, written citations tell us who used a word, not where or when (Shakespeare, the Bible, Milton and Spenser excepted). This practice can turn citations into literary quizzes. Under "wigging" (heated reproof), one D. Acheson is cited for expecting a "wigging for sloppy work". You can check in a list of authors at the back that the writer was indeed Dean Gooderham Acheson (1893-1971). But it tells you neither that he was Harry Truman's secretary of state, nor where or when he wrote the quoted words. Shorn of context and often cryptically cut down, written citations like this risk giving both too much information and too little.

This is a cavil. But it brings up the shifting links between spoken and written—or rather, published—language. Although the gap between spoken and printed vocabulary has narrowed since James Murray began his monumental work in an Oxford garden shed nearly 120 years ago, it has by no means closed. On the one hand, the present generation of Oxford editors is admirably permissive. They have dropped any lingering hold that ideas of correctness or propriety had on Murray. Instead, they aim to give us standard or typical English. Language pedants should here control their trichotillomania (compulsive desire to pull out one's hair). In the Shorter Oxford, disregard of useful distinctions is noted and erosions

of meaning are recorded, not bemoaned. We now have “not interested”, for instance, as another meaning for “disinterested”. Nor are words excluded out of prudery or political correctness: the sex words are all there, flagged “coarse slang”; words of racial or national abuse come with the warning, “offensive”.

On the other hand, trying to seize the creativity of speech as legitimised in published sources can lead to odd choices. Nothing dates faster than slang or journalese. To avoid stuffing their work with dead coinages, the editors use a five-and-five rule: to merit entry, a word or meaning has to be backed by five written uses spread over five years. “Doh” makes it (because Nick Hornby, for one, used it in a book). But we don't find the equally common “hello?” (you're kidding!) or “whatever” (it's the same to me). And surely “I was like”, which for many English-speakers under 40 has virtually replaced “I said” or “I felt”, deserved inclusion.

The fifth Shorter Oxford was the first edition compiled entirely from a computerised corpus of English citations, a rapidly growing monster with 100m entries (including 300, mainly economic, from this newspaper). A natural question is whether computers are making dictionary editors redundant. Angus Stevenson, a co-editor of the fifth, has a good argument why not. Take the word “run”. In the computer corpus, it occurs most frequently by far in the sense of running a company. “But nobody thinks that is even the fifth or sixth core meaning of ‘run'”. Editorial judgment, in other words, is still needed. Across from his office, a much larger team is preparing a new edition of the 20-volume OED to be ready in 2020 or so. This will be based on the computer corpus and published electronically, but edited by humans.

Are the 3,500 fresh entries and the new layout that separate the latest edition of the Shorter Oxford from its predecessor worth paying £95 for? Unless you run a library, many owners of the fourth Shorter Oxford may well decide to stick with that, and hope they are not disgraced when confusing DVD with DVT or thinking that “fabless” is an adjective that describes illiterate starlets, when it means subcontracted electronic production. First-time buyers will not find a more reliable, comprehensive or enjoyable dictionary of English. It even has plenty of silly two-letter Scrabble words.

Shorter Oxford English Dictionary (Fifth Edition).
Edited by William Trumble and Angus Stevenson.
Oxford University Press; 3793 pages; $150 and £95
Oxford University Press; 3793 pages; $150 and £95

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About sponsorship

Henry Racamier

Apr 10th 2003
From The Economist print edition

Khalfi

Henry Marcel Racamier, purveyor of luxury, died on March 29th, aged 90

ON ONE occasion a reporter asked Henry Racamier if his shops ever thought of having a sale. “A sale?” Mr Racamier examined the word as though an impropriety had been uttered. “No,” he said finally. On the contrary, his policy was to make the firm's goods ever more alluring by increasing prices, not reducing them. He was in the business of selling luxury items, and his customers expected to pay very high prices; otherwise they would be worried that they were not being offered products of the finest quality.

Mr Racamier had taken over the leather goods firm of Louis Vuitton in 1977 when its business was slipping. Fewer and fewer people wanted leather luggage. The new generation of travellers was buying lightweight luggage that did not need the assistance of a porter; best give leather back to the cows. Mr Racamier looked beyond Vuitton's traditional European market to Asia. In the 1970s the “tiger” economies were producing a middle class gaining a taste for luxuries. A Vuitton steamer trunk might seem in Paris to belong to a bygone age, as indeed it did, but to a newly rich family in Seoul or Taipei it carried cachet. Did you know that a trunk like this was made for the pasha of Egypt? Fancy that. How much did you say?

Trunks were just a taster of the catalogue of wares rapidly being expanded by Mr Racamier: handbags, purses, belts, wallets. In 1977 Vuitton had two shops, one in Paris, the other in Nice. By 1990 Mr Racamier had built the business into more than 130 Vuitton shops worldwide, set up new factories to keep them supplied, and trained members of staff to be as polite and knowledgeable as those in Paris. One measure of a shop's success is its yearly sales per square foot. That of, say, an average jewellery shop in a prosperous street in a western country might be about $750. The Vuitton shops regularly sold more than twice that, and sometimes much more. Mr Racamier seemed to have turned leather into gold.

The empress's clothes-packer

When he took over Vuitton Mr Racamier was 65 and thinking of retiring. He had spent his adult life in the steel industry, much of it building up a steel trading company called Stinox. It had prospered and Mr Racamier was comfortably off. He was married to Odile Vuitton, the great-granddaughter of Louis Vuitton, who had started out as a clothes-packer for Empress Eugénie, wife of Napoleon III, founding his own luggage business in 1854. The business had stayed in the family, eventually passing to Odile's

father, who had run it until his death in 1970.

Mr Racamier was at first reluctant to take over the family firm. He was planning other diversions, mainly music. But he was prevailed on by his mother-in-law to “take a look at the books; see what can be done”. The books, Mr Racamier recalled, “looked very dodgy”. The firm's assets included a factory of antique character with a staff to match.

Its main asset, Mr Racamier decided, was its name. In its heyday the firm had been an innovator. Its steamer trunks with their flat tops were designed to stack neatly into cargo holds and rapidly replaced domed trunks, more suited to the backs of horse-drawn carriages. The famous would get Vuitton to make luggage personal to their needs: Douglas Fairbanks, an early Hollywood star, wanted a special compartment for his toiletries; Leopold Stokowski's trunk opened into a desk with a drawer for musical scores; an Indian maharajah's trunk had a container to hold water to make tea. Louis Vuitton and his successors had catered for people to whom money was merely a means of getting the best. Mr Racamier sought to satisfy the needs of his new Asian customers in the same joyous spirit.

He was among the first businessmen in the expansive 1980s to recognise the value of the logo: that however well made the article, it was the initials LV that created its extra value. But he differed from other manufacturers who, he said, flaunted their names. The logo had to be discreet, creating a feeling of understated quality. This was especially important for a firm such as Vuitton, which had moved into the luxury mass market. The firm sought to convey the impression that its clientele essentially remained the famous.

In 1987 Mr Racamier formed an alliance with another family firm, Möet Hennessy, producers of champagne and brandy. The resulting group, known as LVMH, would, he believed, be strong enough to see off any predators. In 1988 he brought into the group an investor called Bernard Arnault, aged 39. Mr Racamier was then 76 and saw Mr Arnault as his protégé, and a supporter in any possible disputes with Möet Hennessy. They played piano together. Both liked Chopin. However, Mr Arnault's arrival was the start of a battle for control of LVMH. The battle went through the French courts, ending in 1990 with Mr Racamier's dismissal from the board. Mr Arnault became head of LVMH. Both he and the company have prospered, and according to some accounts Mr Arnault is France's richest man.

As for Henry Racamier, he dabbled in a number of other business enterprises, but none came to much. He continued to find pleasure in music. Playing solo, he reckoned, had its advantages.

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Overview

Apr 10th 2003
From The Economist print edition

The **American labour market** is deteriorating, which may bode ill for consumer spending. In March, America's payroll employment fell by 108,000 workers, and February's drop was revised up to 357,00 from 308,000. Since March 2001, America's payrolls have shed just over 2m jobs. The latest figures were much worse than expected, although the unemployment rate was still unchanged at 5.8%, partly because of a rise in discouraged workers. Such people, who have given up the quest for a job, are not counted as unemployed.

In **Canada**, however, unemployment fell in March to 7.3%, from 7.4% in February.

Producer prices rose by 2.7% in the **euro area** in the year to February, and by 1.3% in **Germany** in the year to March.

In the year to February, industrial production rose by 3.3% in **Denmark** and by 0.2% in **Germany**.

In **Britain**, manufacturing output chalked up surprisingly strong growth in February, rising by 0.3%. Much of the growth was in machinery and equipment, which rose by 2.2% after four months of decline. Industrial output, a broader measure including utilities and mining, rose by 0.7% in February.

Retail sales in **Japan** fell by 0.2% in the year to February.

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Output, demand and jobs

Apr 10th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 3.0	Q4	+ 1.6	+ 3.0	+ 3.6	+ 2.3	Q4	+ 5.4	Q4	6.2	Mar	6.4
Austria	+ 1.2	Q3	+ 0.3	+ 1.0	+ 1.9	– 1.5	Dec	+ 0.9	Dec	4.3	Mar	4.0
Belgium	+ 1.6	Q4	+ 0.8	+ 1.2	+ 2.2	– 1.6	Feb	+ 3.5	Jan	11.7	Mar†	10.8
Britain	+ 2.2	Q4	+ 1.7	+ 1.9	+ 2.5	+ 0.1	Feb	+ 3.2	Feb	5.0	Jan††	5.1
Canada	+ 3.9	Q4	+ 1.6	+ 2.8	+ 3.3	+ 4.2	Jan	– 0.2	Jan	7.3	Mar	7.7
Denmark	+ 0.9	Q4	– 0.1	+ 1.5	+ 2.3	+ 3.3	Feb	+ 2.4	Dec	5.7	Feb	5.0
France	+ 1.7	Q4	+ 0.9	+ 1.2	+ 2.3	+ 1.0	Jan	– 1.9	Dec	9.2	Feb	8.8
Germany	+ 0.5	Q4	– 0.1	+ 0.4	+ 1.6	+ 0.2	Feb	+ 0.4	Feb	10.6	Mar§	9.6
Italy	+ 1.0	Q4	+ 1.7	+ 1.0	+ 2.0	– 1.5	Jan	+ 1.9	Nov†	9.0	Jan	9.0
Japan	+ 2.8	Q4	+ 2.2	+ 0.7	+ 0.8	+ 4.2	Feb	– 0.2	Feb	5.2	Feb	5.3
Netherlands	+ 0.4	Q4	– 0.4	+ 0.6	+ 1.9	– 1.6	Feb	– 2.5	Dec	4.6	Feb†**	3.7
Spain	+ 2.1	Q4	+ 1.4	+ 2.1	+ 2.7	+ 2.5	Dec	+ 2.5	Jan	11.9	Feb	11.1
Sweden	+ 1.3	Q4	+ 1.2	+ 1.7	+ 2.4	+ 3.7	Jan	+ 4.2	Feb	4.5	Feb†	4.0
Switzerland	+ 0.8	Q4	+ 1.4	+ 0.8	+ 1.8	– 2.1	Q4	– 2.8	Dec	3.9	Mar†	2.6
United States	+ 2.9	Q4	+ 1.4	+ 2.2	+ 3.3	+ 1.8	Feb	+ 2.1	Feb	5.8	Mar	5.7
Euro area	+ 1.3	Q4	+ 0.7	+ 1.0	+ 2.1	+ 0.7	Jan	+ 2.7	Jan	8.7	Feb	8.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.8	Q4	+ 2.8	na	na	+ 3.6	Feb	+ 2.0	Nov	9.0	Feb†	9.4
Greece	+ 3.5	Q4	na	na	na	– 0.3	Jan	na		na		na
Iceland	– 3.0	Q4	na	na	na	+12.2	2001	na		4.1	Feb†	2.6
Ireland	+ 6.9	Q3	na	na	na	+ 5.4	Jan	+ 4.7	Jan	4.5	Mar†	4.4
Luxembourg	+ 1.0	2001	na	na	na	+ 3.6	Dec	– 6.1	Oct	3.8	Feb†	2.9
New Zealand	+ 4.2	Q4	+ 2.0	na	na	+ 5.9	Q4	+ 7.3	Q4	4.9	Q4	5.4
Norway	– 0.1	Q4	+ 0.9	na	na	– 6.0	Feb	+ 3.1	Feb	3.7	Q4	3.3
Portugal	– 1.3	Q4	– 3.1	na	na	+ 3.4	Feb	+ 2.3	Feb	6.2	Q4†	4.2

*% change at an annual rate. †Not seasonally adjusted. ‡New series. ††Nov-Jan; claimant count rate 3.1% in Feb. §EU harmonised rate 8.9% in March. **Dec-Feb, new series.

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Prices and wages

Apr 10th 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 3.0	Q4	+ 3.1	+ 2.7	+ 2.5	+ 1.6	Q4	– 0.7	+ 3.9	Q4	+ 4.9
Austria	+ 1.7	Feb	+ 1.9	+ 1.7	+ 1.3	+ 2.0	Mar	– 0.3	+ 2.2	Feb	+ 2.5
Belgium	+ 1.8	Mar	+ 2.7	+ 1.5	+ 1.4	+ 0.3	Feb	– 0.6	+ 2.2	Q4	+ 3.1
Britain	+ 3.2	Feb	+ 1.0	+ 2.8	+ 2.5	+ 1.6	Feb	– 0.2	+ 3.6	Jan	+ 3.0
Canada	+ 4.6	Feb	+ 1.5	+ 3.0	+ 2.2	+ 2.3	Feb	– 1.1	+ 1.8	Jan	+ 3.7
Denmark	+ 2.9	Feb	+ 2.5	+ 2.3	+ 2.0	+ 1.7	Feb	nil	+ 3.9	Q4	+ 4.1
France	+ 2.6	Feb	+ 2.0	+ 1.7	+ 1.4	+ 2.8	Feb	– 1.4	+ 3.5	Q4	+ 3.9
Germany	+ 1.2	Mar	+ 2.0	+ 1.1	+ 1.0	+ 1.3	Mar	nil	+ 2.6	Jan	+ 2.3
Italy	+ 2.7	Mar	+ 2.5	+ 2.3	+ 1.9	+ 2.8	Feb	– 1.1	+ 2.1	Dec	+ 2.8
Japan	– 0.2	Feb	– 1.6	– 0.6	– 0.5	– 0.9	Feb	– 2.6	+ 2.1	Feb	– 0.6
Netherlands	+ 2.7	Mar	+ 3.7	+ 2.6	+ 2.1	+ 5.1	Feb	– 2.6	+ 3.0	Feb	+ 4.4
Spain	+ 3.8	Feb	+ 3.1	+ 3.0	+ 2.6	+ 2.9	Feb	– 0.2	+ 3.9	Q4	+ 3.7
Sweden	+ 3.4	Feb	+ 2.8	+ 2.4	+ 2.0	+ 0.6	Feb	– 0.4	+ 4.0	Dec	+ 3.2
Switzerland	+ 1.3	Mar	+ 0.6	+ 0.7	+ 0.9	nil	Feb	– 1.5	+ 2.5	2001	+ 1.3
United States	+ 3.0	Feb	+ 1.1	+ 2.3	+ 1.8	+ 3.5	Feb	– 2.6	+ 3.1	Mar	+ 3.3
Euro area	+ 2.4	Mar	+ 2.5	+ 1.8	+ 1.5	+ 2.7	Feb	– 1.1	+ 3.4	Q4	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.9	Feb	+ 1.8	na	na	+ 2.3	Feb	– 1.4	+ 3.3	Q4	+ 4.5
Greece	+ 4.1	Mar	+ 4.0	na	na	+ 2.7	Feb	+ 3.5	na		na
Iceland	+ 2.2	Mar	+ 8.7	na	na	+ 3.3	Apr	+ 8.7	+ 5.6	Feb	+ 9.8
Ireland	+ 5.1	Feb	+ 4.7	na	na	– 5.3	Jan	+ 1.7	+ 6.8	Q4	+ 7.8
Luxembourg	+ 2.7	Mar	+ 2.1	na	na	+ 1.3	Jan	– 2.0	+ 0.5	Dec	nil
New Zealand	+ 2.7	Q4	+ 1.8	na	na	– 0.9	Q4	+ 1.8	+ 2.1	Q4	+ 2.2
Norway	+ 3.7	Mar	+ 1.0	na	na	+ 5.1	Mar	– 4.5	+ 5.2	Q4	+ 4.4
Portugal	+ 4.2	Feb	+ 3.2	na	na	+ 2.7	Feb	– 0.6	+ 0.4	Jan*	+ 1.3

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Portfolio poll

Apr 10th 2003
From The Economist print edition

Portfolio poll

1st quarter 2003

▼▲ A change of 5% points or more on last quarter ▼▲ A change of less than 5% points on last quarter

	Holdings by instrument, %			Equity holdings by area, %							Bond holdings by currency, %				
	Equities	Bonds	Cash	United States	Other Americas	Britain	Euro area	Other Europe	Japan	Other Asia	Dollar	Yen	Sterling	Euro-zone	Others
Robeco Group	53	47	0	57	3 ▲	11 ▼	13	5	8 ▲	3 ▼	21 ▼	27 ▲	6 ▲	34 ▼	12 ▲
Julius Baer PB	45 ▲	42 ▼	13†	50 ▲	4 ▼	6 ▼	18 ▲	10 ▲	6 ▼	6 ▼	88	0	0	7	5
Commerz Int. CM	56 ▲	44 ▲	0 ▼	56 ▼	2	9 ▼	18	4 ▲	9 ▲	2 ▲	32 ▼	25 ▲	6 ▼	35 ▲	2 ▼
Credit Suisse PB	35 ▲	36 ▼	29‡ ▼	68 ▲	0	0 ▼	16 ▲	0 ▼	4 ▼	12 ▲	72 ▼	0	7 ▲	21 ▲	0
Lehman Brothers	70	30	0	47 ▲	0	11 ▼	22 ▼	4 ▼	11 ▼	5 ▲	45 ▼	18	4	30 ▲	3
Standard Life	55	45	0	57	0	12	14	5	9	3	26	29	6	39	0
Daiwa IR	59 ▼	34	7 ▲	56 ▲	3 ▲	12 ▲	11 ▼	6 ▲	8	4 ▲	26 ▼	18 ▲	5 ▼	45 ▲	6 ▲
Average	53 ▲	40 ▲	7 ▼	56 ▲	2	9 ▼	16 ▼	5	8	5	44 ▼	17 ▲	5 ▲	30 ▲	4 ▼
Neutral*	-	-	-	57 ▲	3 ▲	11	13	4 ▼	9 ▼	3	22 ▼	29	5	39 ▲	5

*Morgan Stanley Capital International (developed) world equity index; Salomon Brothers world government-bond index †Of which 7% invested in alternative investments ‡Of which 20% invested in alternative investments

In the first quarter, the fund managers in our poll had to cope with some of the most volatile markets in years, thanks to uncertainties over the war in Iraq. Swiss and German fund managers were more optimistic about shares than their peers. Commerzbank, Credit Suisse and Julius Baer increased their equity holdings; Commerzbank even reduced its cash allocation to zero. Our moneymen still put more faith in corporate America than in Japanese and European companies: all, except Commerzbank, either maintained or increased their investment in American shares. Similarly, they have a nearly unanimous view of the anaemic dollar, reducing their stakes in dollar-denominated bonds and placing bigger bets on those paying out yen, sterling and euros.

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Money and interest rates

Apr 10th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Apr 9th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	–11.8	+10.3	Feb	4.80	4.52	4.54	5.34	6.28	6.31
Britain	+ 6.2	+ 6.7	Feb	3.56	4.13	3.48	4.46	5.23	6.06
Canada	+ 5.7	+ 3.7	Feb	3.18	2.38	3.86	5.13	5.72	7.09
Denmark	+ 8.7	+10.4	Feb	2.75	3.70	2.70	4.41	5.35	5.47
Japan	+14.4	+ 1.8	Mar	0.02	0.03	0.05	0.68	1.38	0.84
Sweden	+ 0.4	+ 5.2	Jan	3.39	4.21	3.62	4.73	5.55	4.09
Switzerland	+12.9	+ 8.7	Feb	0.30	1.60	0.31	2.53	3.44	3.24
United States	+ 3.8	+ 6.3	Feb	1.19	1.84	1.53	3.90	5.23	6.03
Euro area†	+10.3	+ 8.1	Feb	2.52	3.41	2.47	4.17	5.12	4.50

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 4.90%, Japan No.248 0.68%. Central bank rates: US fed funds 1.25%, ECB refinancing 2.50%, BOJ overnight call 0.001%, BOE repo 3.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Apr 10th 2003
From The Economist print edition

1995=100

	Apr 1st	Apr 8th*	% change on one month	% change on one year
Dollar index				
All items	75.1	75.8	– 2.1	+ 9.6
Food	76.7	77.9	– 0.9	+12.5
Industrials				
All	72.8	72.8	– 3.8	+ 5.6
Nfa†	77.1	78.0	– 1.0	+12.5
Metals	69.2	68.4	– 6.4	– 0.3
Sterling index				
All items	75.3	77.1	+ 1.4	+ 1.3
Euro index				
All items	90.6	93.4	+ 1.4	–10.0
Yen index				
All items	94.5	96.7	+ 0.4	+ 0.2
Gold				
$ per oz	335.00	322.80	– 8.0	+ 8.0
West Texas Intermediate				
$ per barrel	29.75	28.03	–23.6	+ 9.6

* Provisional. † Non-food agriculturals.

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Stockmarkets

Apr 10th 2003
From The Economist print edition

Market indices

	Apr 9th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	2,915.7	3,049.6	2,673.3	+ 2.4	-15.2	- 2.0	+ 4.8
Austria (ATX)	1,197.5	1,120.2	1,120.2	+ 0.9	-31.1	+ 4.1	+ 6.1
Belgium (Bel 20)	1,826.8	2,074.1	1,426.6	+ 6.3	-50.4	- 9.8	- 8.1
Britain (FTSE 100)	3,861.4	4,009.5	3,287.0	+ 2.9	-44.3	- 2.0	- 5.4
Canada (Toronto Composite)	6,414.5	6,837.3	6,228.6	+ 0.1	-43.7	- 3.0	+ 4.4
Denmark (KBX)	168.8	173.2	145.0	+ 3.0	-44.0	+ 1.6	+ 3.5
France (SBF 250)	1,926.3	2,144.8	1,630.1	+ 4.9	-56.1	- 6.2	- 4.4
(CAC 40)	2,888.0	3,210.3	2,403.0	+ 5.3	-58.3	- 5.7	- 4.0
Germany (DAX)	2,734.1	3,157.3	2,203.0	+ 5.6	-66.1	- 5.5	- 3.7
Italy (BCI)	1,080.1	1,142.4	959.4	+ 4.1	-50.5	- 1.1	+ 0.8
Japan (Nikkei 225)	8,057.6	8,790.9	7,862.4	- 0.2	-79.3	- 6.1	- 7.5
(Topix)	801.2	865.4	760.1	+ 0.5	-72.2	- 5.0	- 6.5
Netherlands (AEX)	278.1	337.3	218.4	+ 4.9	-60.4	-13.8	-12.2
Spain (Madrid SE)	670.0	683.8	576.8	+ 4.4	-41.6	+ 5.7	+ 7.7
Sweden (Affarsvarlden Gen)	142.8	153.4	127.8	+ 2.2	-64.3	- 1.6	+ 0.3
Switzerland (Swiss Market)	4,472.8	4,965.3	3,675.4	+ 4.7	-46.8	- 3.4	- 4.0
United States (DJIA)	8,197.9	8,842.6	7,524.1	- 1.1	-30.1	- 1.7	- 1.7
(S&P 500)	866.0	931.7	800.7	- 1.7	-43.3	- 1.6	- 1.6
(NASDAQ Comp)	1,356.7	1,461.0	1,271.5	- 2.9	-73.1	+ 1.6	+ 1.6
Europe (FTSE Eurotop 300)*	808.6	890.8	682.7	+ 3.8	- 52.6	- 5.6	- 3.9
Euro area (FTSE Ebloc 100)*	682.3	757.2	565.7	+ 4.7	- 56.0	- 5.0	- 3.2
World (MSCI)†	771.8	830.7	710.8	- 0.2	- 46.7	na	- 2.6
World bond market (Citigroup)‡	532.2	551.7	518.6	- 0.8	- 3.5	na	+ 1.3

* In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡ Citigroup World Government Bond Index, total return, in $ terms.

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About sponsorship

Trade, exchange rates and budgets

Apr 10th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Apr 9th	year ago	Currency units per $ Apr 9th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2002‡
Australia	− 6.7	Feb	− 17.7	Q4	− 4.7	− 3.9	78.0	75.8	1.66	1.88	2.58	1.79	1.38	0.1
Austria	+ 0.4	Dec	+ 0.9	Jan	− 0.7	− 0.9	101.7§	100.3	0.94	1.14	1.45	–	0.78	-1.6
Belgium	+ 16.4	Jan	+ 11.8	Dec	+ 4.9	+ 4.9	101.4§	99.0	0.94	1.14	1.45	–	0.78	nil
Britain	− 55.5	Feb	− 13.1	Q4	− 1.8	− 1.6	99.7	107.3	0.64	0.70	–	0.69	0.53	-1.4
Canada	+ 34.7	Jan	+ 11.0	Q4	+ 1.6	+ 1.7	80.3	75.8	1.47	1.59	2.28	1.58	1.22	0.6
Denmark	+ 8.1	Jan	+ 5.1	Jan	+ 2.0	+ 1.9	105.2	101.7	6.95	8.46	10.8	7.49	5.76	2.2
France	+ 9.0	Jan	+ 27.3	Jan	+ 1.7	+ 1.6	104.5§	101.6	0.94	1.14	1.45	–	0.78	-2.7
Germany	+122.8	Feb	+ 46.9	Feb	+ 1.9	+ 1.8	101.8§	98.5	0.94	1.14	1.45	–	0.78	-3.7
Italy	+ 8.2	Jan	− 8.8	Jan	− 0.4	− 0.3	74.5§	72.5	0.94	1.14	1.45	–	0.78	-2.3
Japan	+ 95.9	Feb	+115.0	Feb	+ 2.6	+ 2.9	129.9	129.5	121	131	187	130	–	-7.9
Netherlands	+ 29.1	Jan	+ 9.1	Q4	+ 3.2	+ 3.2	100.7§	97.9	0.94	1.14	1.45	–	0.78	-0.8
Spain	− 40.8	Jan	− 17.1	Dec	− 2.2	− 2.1	76.0§	74.2	0.94	1.14	1.45	–	0.78	nil
Sweden	+ 15.0	Feb	+ 9.9	Dec	+ 3.6	+ 3.5	79.6	76.5	8.55	10.3	13.3	9.22	7.09	1.7
Switzerland	+ 4.7	Feb	+ 32.0	Q4	+11.2	+11.4	115.0	112.3	1.39	1.67	2.16	1.50	1.15	na
United States	−495.8	Jan	−503.4	Q4	− 5.4	− 5.3	108.6	122.6	–	–	1.55	1.08	0.83	-3.1
Euro area	+ 95.5	Jan	+ 53.5	Jan	+ 0.8	+ 0.8	87.0	78.1	0.94	1.14	1.45	–	0.78	-2.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.5	Jan	+ 10.5	Jan	na	na	80.4§	78.2	0.94	1.14	1.46	–	0.78	3.2
Greece	− 22.0	Jan	− 10.1	Jan	na	na	58.7§	57.5	0.94	1.14	1.46	–	0.78	-1.1
Iceland	+ 0.2	Feb	nil	Q4	na	na	93.0**	80.4	77.5	98.5	120	83.6	64.3	0.3
Ireland	+ 36.1	Jan	− 0.2	Q4	na	na	91.6§	87.2	0.94	1.14	1.46	–	0.78	-0.5
Luxembourg	− 3.1	Dec	+ 1.7	Q4	na	na	101.4§	99.0	0.94	1.14	1.46	–	0.78	1.8
New Zealand	− 0.9	Feb	− 1.9	Q4	na	na	96.2	84.8	1.81	2.29	2.81	1.95	1.50	1.6
Norway	+ 28.0	Feb	+ 27.4	Jan	na	na	102.0	99.7	7.25	8.70	11.3	7.82	6.02	12.4
Portugal	− 12.8	Dec	− 9.2	Jan	na	na	91.3**	89.9	0.94	1.14	1.46	–	0.78	-3.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, January average. ‡OECD estimate. **IMF, November average.

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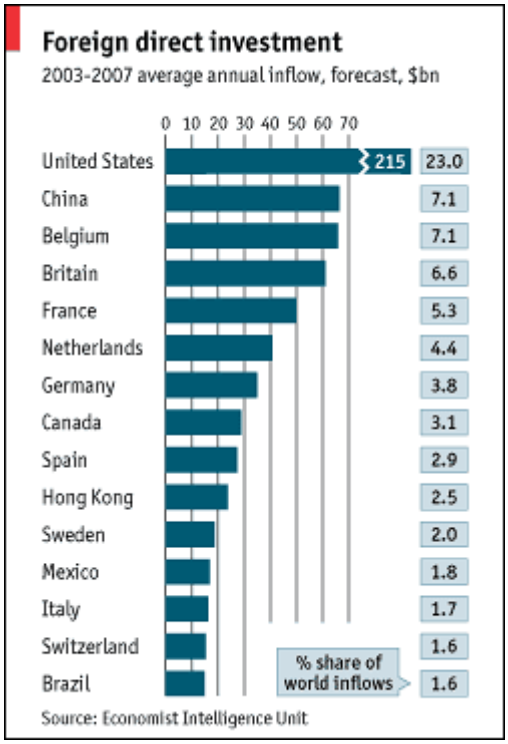
Foreign direct investment

Apr 10th 2003
From The Economist print edition



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Overview

Apr 10th 2003
From The Economist print edition

As the outbreak of SARS (Severe Acute Respiratory Syndrome) worsens, the outlook for **Hong Kong's** economy darkens. Retail sales by value fell by 12.4% in the year to February, before the outbreak began. Since the SARS crisis hit, retail sales have fallen by 50%, according to industry groups.

Driven by higher oil prices before the Iraq war, **Chile's** consumer-price inflation ran at 4.5% in the year to March.

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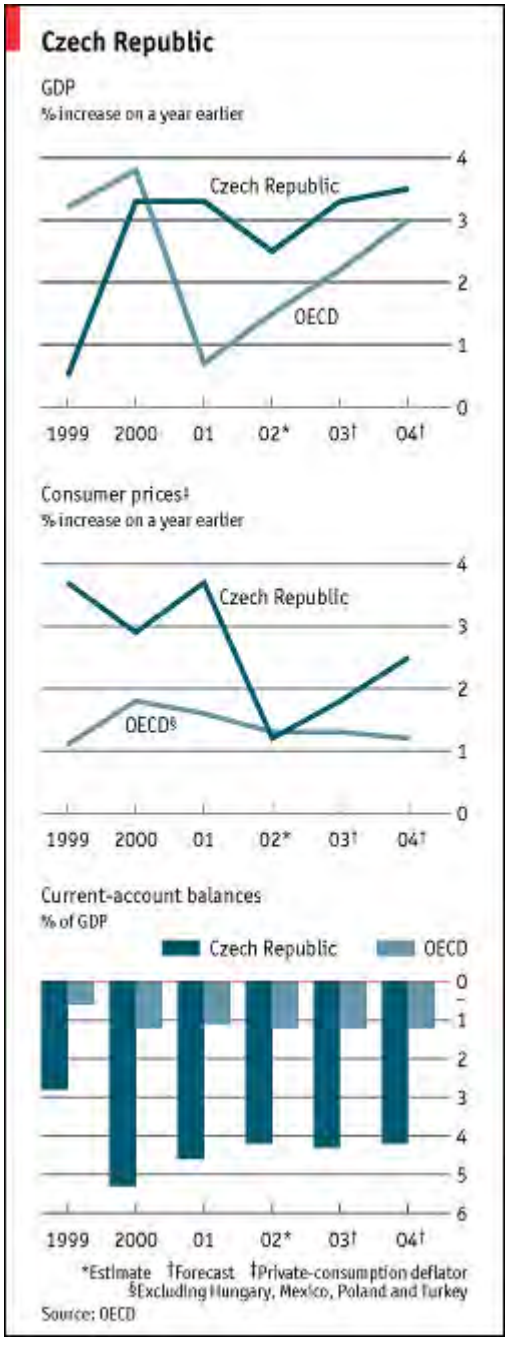
Czech Republic

Apr 10th 2003
From The Economist print edition

The Czech economy has slowed in the past year, in sympathy with the country's main trading partners in western Europe. Even so, its growth since 2000 has outpaced the OECD's average. The country remains a leading destination for foreign direct investment in central Europe, although the OECD reckons that it still faces risks from its loose fiscal policy, and also that it needs continued labour-market reforms.



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Economy

Apr 10th 2003
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.1	Q4	+16.9	Mar	+ 0.2	Feb	+23.9	Feb	+17.4	2001	309.2	Jan
Hong Kong	+ 5.0	Q4	– 9.2	Q4	– 2.0	Feb	– 7.9	Feb	+13.8	Q4	113.6	Mar
India	+ 2.6	Q4	+ 6.4	Jan	+ 3.9	Feb	– 8.2	Feb	+ 4.5	Q3	71.1	Mar
Indonesia	+ 3.8	Q4	+ 6.7	Jan	+ 7.1	Mar	+25.6	Feb	+ 7.5	Q3	31.1	Feb
Malaysia	+ 5.6	Q4	– 0.9	Feb	+ 1.6	Feb	+14.3	Feb	+ 7.3	Q4	34.5	Feb
Philippines	+ 5.8	Q4	+ 4.9	Jan	+ 2.9	Mar	+ 0.7	Jan	+ 6.1	Sep	12.9	Mar
Singapore	+ 1.5	Q1	– 1.4	Feb	+ 0.4	Feb	+10.7	Feb	+18.7	Q4	83.5	Mar
South Korea	+ 6.8	Q4	+10.2	Feb	+ 4.5	Mar	+ 7.7	Mar	+ 5.1	Feb	123.9	Feb
Taiwan	+ 4.2	Q4	+10.1	Feb	– 0.2	Mar	+16.2	Feb	+25.8	Q4	166.3	Feb
Thailand	+ 6.1	Q4	+12.8	Feb	+ 1.7	Mar	+ 4.8	Feb	+ 8.3	Feb	37.9	Feb
Argentina	– 3.6	Q4	+12.3	Feb	+31.7	Mar	+16.0	Feb	+ 8.9	Q4	10.3	Feb
Brazil	+ 3.4	Q4	+ 2.8	Jan	+15.9	Feb	+16.0	Mar	– 5.5	Feb	38.6	Jan
Chile	+ 3.2	Q4	+ 7.8	Feb	+ 4.5	Mar	+ 2.3	Feb	– 0.6	Q4	16.5	Feb
Colombia	+ 2.0	Q4	+ 5.6	Dec	+ 7.6	Mar	nil	Dec	– 1.5	Q3	10.9	Feb
Mexico	+ 1.9	Q4	+ 0.3	Jan	+ 5.6	Mar	– 6.9	Feb	–14.5	Q4	52.0	Feb
Peru	+ 4.6	Jan	+ 4.0	Jan	+ 2.8	Feb	+ 0.3	Jan	– 1.1	Q4	9.3	Jan
Venezuela	–16.7	Q4	–64.8	Dec	+34.1	Mar	+13.9	Q4	+ 7.6	Q4	8.6	Dec
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 3.0	Dec	– 7.8	Dec	+ 0.5	Q4	13.2	Dec
Israel	+ 1.3	Q4	+ 1.3	Dec	+ 5.1	Feb	– 5.5	Feb	– 2.1	Q4	23.7	Mar
South Africa	+ 3.0	Q4	+ 0.4	Feb	+12.5	Feb	+ 3.9	Feb	+ 0.3	Q4	6.1	Feb
Turkey	+11.4	Q4	+ 4.4	Feb	+29.4	Mar	–16.0	Jan	– 1.3	Dec	29.2	Jan
Czech Republic	+ 1.5	Q4	+ 5.2	Feb	– 0.4	Mar	– 2.5	Feb	– 3.5	Q4	24.4	Feb
Hungary	+ 3.7	Q4	+ 1.5	Feb	+ 4.5	Feb	– 3.6	Feb	– 2.7	Jan	13.0	Feb
Poland	+ 2.1	Q4	+ 4.1	Feb	+ 0.5	Feb	–10.2	Feb	– 6.3	Feb	30.7	Feb
Russia	+ 4.3	Q3	+ 6.5	Feb	+14.8	Mar	+50.2	Feb	+38.3	Q1	49.3	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.6	2002†	+15.8	Nov	+ 3.5	Feb	– 1.5	Mar	+ 2.7	2002†	8.5	Jan
Saudi Arabia	+ 1.2	2001	na		– 0.7	Nov	+39.2	2001	+ 9.4	2001	21.2	Jan

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

Apr 10th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Apr 9th		Dec 31st 2002	
	Apr 9th	year ago	Apr 9th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.9	na	1,614.7	+1.5	+ 13.8	+ 13.8
Hong Kong	7.80	7.80	12.1	1.39	8,636.9	-0.8	- 7.3	- 7.4
India	47.4	48.9	73.7	5.47	3,141.3	+0.8	- 7.0	- 5.9
Indonesia	8,865	9,580	13,779	11.91	430.3	+8.1	+ 1.3	+ 2.2
Malaysia	3.80	3.80	5.91	3.10	634.4	+0.9	- 1.8	- 1.8
Philippines	52.6	50.9	81.7	11.18	1,095.6	+4.2	+ 7.6	+ 9.2
Singapore	1.78	1.84	2.77	0.69	1,292.9	-0.5	- 3.6	- 6.2
South Korea	1,250	1,324	1,943	4.69	569.5	+4.9	- 9.3	- 13.9
Taiwan	34.8	34.9	54.0	1.40	4,537.4	+5.2	+ 1.9	+ 2.0
Thailand	43.1	43.5	66.9	1.75	376.2	+3.6	+ 5.5	+ 5.6
Argentina	2.93	2.76	4.55	8.60	564.6	+0.5	+ 7.5	+ 23.6
Brazil	3.17	2.27	4.93	26.32	11,758.9	-1.0	+ 4.4	+ 16.4
Chile	721	641	1,120	2.52	5,146.9	+1.6	+ 2.5	+ 2.5
Colombia	2,917	2,256	4,534	7.68	1,657.4	+4.0	+ 3.0	+ 1.3
Mexico	10.75	9.04	16.7	7.56	6,212.1	+3.4	+ 1.4	- 1.3
Peru	3.47	3.44	5.39	3.94	1,642.5	+3.5	+ 18.0	+ 19.7
Venezuela	1,598	891	2,484	26.26	8,516.1	-0.9	+ 6.3	- 7.8
Egypt	5.81	4.63	9.03	13.59	6,720.2	+3.5	+ 25.1	- 0.3
Israel	4.64	4.75	7.20	5.82	372.4	+4.1	+ 12.0	+ 14.8
South Africa	7.9	11.2	12.3	13.55	7,872.1	-0.5	- 15.1	- 7.7
Turkey	1,640,500	1,301,000	2,549,993	42.00	10,886.2	+11.0	+ 5.0	+ 6.2
Czech Republic	29.3	34.5	45.6	2.41	505.9	+1.1	+ 9.8	+ 12.6
Hungary	229	276	355	6.54	7,887.0	+3.8	+ 1.1	- 0.5
Poland	3.99	4.09	6.20	5.95	14,503.3	+4.3	+ 1.0	- 2.9
Russia	31.3	31.2	48.6	18.00	370.8‡	+2.1	+ 1.1	+ 3.3
EMF (MSCI)*	1.00	1.00	1.55	na	283.5	+2.7	na	- 2.9
EMBI+†	1.00	1.00	1.55	na	250.6	+0.5	na	+ 9.5

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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